

THE EFFECT OF RELATIONSHIP BANKING ON CUSTOMER LOYALTY IN THE
RETAIL BUSINESS BANKING INDUSTRY.

RESEARCH REPORT

presented to the

Graduate School of Business Leadership
University of South Africa

In partial fulfilment of the requirements for the
MASTERS DEGREE IN BUSINESS
LEADERSHIP
UNIVERSITY OF SOUTH AFRICA

by

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24 November 2005

ABSTRACT

Relationship banking, as exemplified by retail banks, is a valuable enabling strategy that promotes competitiveness and provides sustainable success. The utilisation of relationship banking as a business strategy to increase customer retention, create customer loyalty and ultimately increase long-term profits is a relative young tactic, originating in the 1980s and gathering pace during the 1990s. The correct application of relationship banking could impact on the bottom-line of banks favourably. Hence the positioning of this research to investigate the effect of the relationship banking offering on customer loyalty, and its use in realising customer loyalty and long-term value from relationship banking initiatives.

The retail banking industry in South Africa is a complex and very competitive environment, which is dominated by the big four banks (ABSA, First National Bank, Nedbank, and Standard Bank). It is a business imperative for the management of the banks to ensure that they establish, develop and improve relationships with their most important asset, their customers. Operating in such a dynamic environment requires of banks to fully understand all the factors of relationship banking that affect their success and market share. What is the impact of relationship banking on customer loyalty, and what are the possible results that can flow from a close relationship between bank and customer?

The main research hypothesis states that business customers who receive the relationship banking offering from their retail bankers are more loyal towards their bank than those business customers who do not receive the relationship banking offering. With this in mind the research seeks to clarify specific primary objectives based on the hypothesis:

- To investigate the impact that relationship banking has on the loyalty of business banking customers in the retail banks in South Africa.

- To identify the critical factors of relationship banking that can influence customer loyalty.
- To identify the benefits of relationship banking and customer loyalty.

The research composed of a field study in the retail banking industry, with a sample of 80 business banking customers with a close business relationship with their banker or having a personal banker looking after the relationship, and 80 business customers without a close business relationship with their banker or no personal banker looking after their relationship. The survey focused on the attitude or perception of business customers based on relationship and loyalty dimensions.

The research, in combination with the literature review provided valuable insight into the factors influencing relationship banking, its value as part of a retail business banking proposition, as well as the effect it has on customer loyalty. It also provided insight into the importance of customer loyalty and its impact on customer retention and long-term profitability. It is clear from the literature review and research that a relationship banking offering adds value with regard to customer retention and loyalty. **The results and findings from the research and literature review represent a remarkable difference between the perceived levels of customer loyalty of the two groups. This is an indication that relationship banking affects customer loyalty positively.**

The critical factors of relationship banking that were found to influence customer loyalty included the value proposition, service and quality, employee competency (relationship banker), price, reward and recognition, and communication. The benefits of developing and building customer loyalty included: retention of customers and staff, customer satisfaction, trust, word of mouth referrals and growth, cost reduction, cross-sales, profitability (relationship lifetime value) and enhancing the bank's competitive advantage.

The researcher recommends that retail banks must continue to implement relationship banking offerings across all business customer segments. A possible consideration will be to divide the relationship banking offering on different levels: high-touch; medium-touch; and low-touch. These different value propositions should represent mutual (bank and customer) requirements and financial feasibility for banks. Banks must place customer-centricity at the core of their relationship banking strategy.

To support the relationship strategies banks need to understand the behaviour of their customers and their buying habits. Market segmentation is a critical aspect of relationship marketing and the segmentation of business customers must be in line with the different levels of relationship offerings. Segmentation should also be in line with customer value or customer profitability, complexity of financial demands, annual turnover and industry. This segmentation will allow banks to provide the correct relationship banking offering to the right customer. To support the segmentation process banks need to be able to determine the individual customer profitability. Management information systems must be developed and used to determine the customer's profitability. Once the segmentation has been concluded banks must implement and use applicable CRM strategies and CRM systems to complement the relationship banking offering. It's about knowing their customers well enough to determine the kind of relationship they would like to have. Banks must also try to extend their CRM strategy across all customers. The support from top management and understanding of the relationship banking offering is critical as a lack of support can derail the success.

The main recommendations for further study that transpired from the research included:

- Research on the calculation of relationship life time value.

- Research on a model for appropriate market segmentation of business banking customers in South Africa.
- Research on the importance of reward and recognition strategies to valued customers, plus loyalty programmes.
- Research on the key characteristics of relationship bankers.

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to those who have assisted me in the completion of this research report.

In particular I would like to thank the following:

- My wife, Christel, for her support throughout this research journey.
- My girls, Chené and Mieke, who have been patient and shared “their” time with my studies.
- Thys Buitendag, for his friendship, mentorship and making the MBL possible for me.
- Prof Piet Ackermann, for his invaluable input and guidance.
- To all the business customers who sacrificed time to participate in the research survey.
- To my friends and family for their support.
- Lastly and most importantly to my Lord Jesus Christ.

STATEMENT

It is hereby certified that the dissertation on:

“THE EFFECT OF RELATIONSHIP BANKING ON CUSTOMER LOYALTY IN THE RETAIL BUSINESS BANKING INDUSTRY” is my own work and that all references have been acknowledged under the references section.

Signed:.....

LJ van Ravesteyn

Date:

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CHAPTER 1: ORIENTATION

1.1 Introduction

Relationship banking is a valuable enabling strategy that promotes competitiveness and provides sustainable success for banks (Abbrat & Russell, 1999). The utilisation of relationship banking as a business strategy to increase customer retention, create customer loyalty and ultimately increase long-term profits is a relatively young tactic, originating in the 1980s and gathering pace during the 1990s (Levitt, 1981; 1983; Rauch, 1993; Cheese, 1994). The correct application of a relationship banking offering could impact the bottom-line of banks favourably over the long-term (Gummesson, 1998; Abratt & Russell, 1999; Iniesta & Sánchez, 2002).

The retail banking industry in South Africa is a complex and very competitive environment, which is dominated by the big four banks: Amalgamated Banks of South Africa (ABSA), First National Bank (FNB), Nedbank, and Standard Bank (Metcalf, 2003; South African Reserve Bank, 2003). Based on the nature of the financial industry, which include products and services that are complicated, risky, and of a long-term nature, customers are in a high involvement relationship with their financial service providers (Howcroft, Hewer & Durkin, 2003; Ferreira, 2004). Operating in such a dynamic environment requires banks to fully understand all the factors of relationship banking that affect their success and market share. Levitt (1983) deems the most valuable asset of a company to be its relationship with its customers. The focus must be on building mutually beneficial relationships between the bank and its customers (Fournier, Dobscha & Mick, 1998).

One of the challenges for banks is how to differentiate themselves from their competitors. Differentiation based on price and cost strategies is normally short-lived, and the only real way to differentiate is through relationships and service propositions (Ghemawat, 1999; Fournier et al, 1998). The responsibility of the marketing function includes the notion that the most should be made of existing customers, which is

essential for long-term profitability. “The challenge to the banks is to own the relationship with the client and use this as a competitive advantage over other banks” (Abratt & Russell, 1999: 5). To establish and maintain a competitive advantage, banks need to retain customers through strong relationships (Barnes & Howlett, 1998).

Feasibility and costs restrict companies from having one-to-one relationships with each and every customer (Bennett & Durkin, 2002). They need to make use of relationship marketing and management at segment or market level to identify the target market they intend pursuing (Stewart, 1995). Relationship banking has mainly focused on corporate and commercial, rather than retail, banking in the past (Howcroft et al, 2003). However, the focus has changed and the value of building closer relationships with retail banking business customers has increased in recent years.

A good standard of measuring the quality of a relationship is loyalty (Reichheld, 1996; 2001). True loyalty is based on a partnership, which is based on mutual interest and shared goals. Loyalty ensures that the relationship is retained during the best of times as well as the worst. “For loyalty, it is not only how satisfied you keep your customers, but how many satisfied customers you keep” (Reichheld, 2001: 127). One of the objectives of the relationship banking strategy has been to establish a high level of customer loyalty. Customer loyalty results in numerous benefits, which include increased profits and customer retention (Abratt & Russell, 1999; Iniesta & Sánchez, 2002; Bennett & Durkin, 2002).

Cognisance should also be taken of the perception of some customers that banks are seen to be all the same, with the one being as good or bad as the other (Cheese, 1994). Defection is low, but might be the result of customer inertia rather than true customer loyalty. The effort for a customer to transfer the relationship to another bank is often seen as being too cumbersome, when compared with the benefits of making a transfer. Where there is no close relationship such relationships will always be in

danger when more attractive alternatives are presented to customers. On the other hand, customers who value the banking relationship over the long term and do not seek to exploit the bank are most desirable (Gibbs, 1985).

1.2 Objectives of the study

The objectives of the study are:

- To investigate the impact that relationship banking has on the loyalty of business banking customers in retail banks in South Africa.
- To identify the critical factors of relationship banking that can influence customer loyalty.
- To identify the benefits of relationship banking and customer loyalty.

1.3 Delineation of scope of the study

The study covers business segment customers in the South African retail banking environment. None of the four major banks' segmentation of the business market is similar. In the current retail banking environment, the relationship banking offering is mainly found in the upper business market band, namely the commercial banking, business banking or business customer market segments. However, the main banks differ in their segmentation criteria and cognisance must be taken that the relationship-banking offering is not solely restricted to the upper business customer segment. Certain banks use additional criteria to segment their customers and include them in the relationship banking offering. Such criteria include contribution bands and industry or sector. Contribution bands are used to determine if customers justify the cost relevant to the relationship banking offering. Industry and sector segmentation takes place to differentiate between growing industries, high risk industries and specialised industries. The general segmentation is found to be

between turnover bands of R3 000 000 to R50 000 000 per annum (ABSA, 2005; First National Bank, 2005; Nedbank, 2005; Standard Bank, 2005).

1.4 Assumptions

No difference exists in respect of business customers' attitudes and perceptions, in the different retail banks, when measuring the impact of relationship banking on customer loyalty. This assumption supports generalisation of customers' attitudes and perceptions across different banks.

1.5 Limitations

Due to the confidentiality policies of banks, access to customer information is not readily available. The study will be limited to business customers from one of the four main South African retail banks. The specific customer data used will also be kept confidential in compliance with customer and bank requirements.

The study will not focus on aspects of brand loyalty, loyalty programmes, customer rewards and incentives. These are fields for investigation in their own right.

It will also not focus on internal customers (employee loyalty) and the loyalty of other stakeholders, such as, shareholders.

1.6 Importance of the study

In the past, different views existed on the relevance and importance of relationship banking as part of the relationship marketing strategy. The old view was that customers purely used their banks for transactions and viewed the bank as a "utility". The new view is that over and above the transactional side of banking, a relationship side also exists which fulfils certain needs of the customer (Grönroos, 1997; Cram 2001). The importance of both transactional and relational banking has been

accepted, however, the value and characteristics of relationship banking is still being debated and developed (Cheese, 1994; Howcroft et al, 2003).

One of the aims of the relationship banking strategy has always been to establish a high level of customer loyalty (Abratt & Russell, 1999; Iniesta & Sánchez, 2002; Bennett & Durkin, 2002). There are opposing views on the existence of customer loyalty (Rayner, 1996; East, Lomax & Freeman, 2002; Reinartz & Kumar, 2002; Ambler, 2003).

Those that support the view that customer loyalty exists have implied that customer loyalty results in numerous benefits, which include increased profits and customer retention. Others believe that customers are only interested in the transactional value received, in the price or service, and question the existence of customer loyalty. Relationship banking, on the other hand, is an expensive sales and service approach, and it is critical that it achieves the purpose for management that it sets out to do – one of the aims being to enhance customer loyalty (Murray, 2004).

Relationship banking as part of marketing strategies is an imperative in the highly competitive banking industry. Management needs to understand the economic value of building long-term relationships with their high-value customers. Customer retention of profitable customers is not negotiable, as all institutions and niche banks want this profitable share of the market. Banks need to own the relationship with the client and use this as a competitive advantage over other banks (Abratt & Russell, 1999). The study will attempt to confirm the importance of building close relationships and measure the impact this has on customer loyalty and will contribute to the existing body of knowledge. Customer loyalty is more than brand loyalty, loyalty programmes and incentives. Management needs to realise the effects of customer loyalty on business growth and profits. Management also needs to know what factors or relationship activities impact positively on customer loyalty.

The research intends to contribute to previous research on relationship marketing (Christopher, Payne & Ballantyne, 1991; Cheese, 1994; Grönroos, 1994a; 1994b; 1997; Voss & Voss, 1997; Gummesson, 1998; Abratt & Russell, 1999; Peppers, Rogers & Dorf, 1999; Ellis, 2004), relationship banking (Moriarty, Kimball & Gay, 1983; Gibbs, 1985; Bejou, Ennew & Palmer, 1998; Barnes & Howlett, 2000; Bennett & Durkin, 2002; Ferreira, 2004) and customer loyalty (Bhote, 1996; Rayner, 1996; Reichheld, 1996; Duffy 1998; Mittal & Lassar, 1998; Reichheld, 2001; Johnson, 2002; Reinartz & Kumar, 2002; Rigby, Reichheld & Dawson, 2003).

1.7 Industry overview

Retail banking is firmly grounded in the financial industry and economic sector of any country. It is part of a world of constant change, where competition is fierce, new technologies ever present, and changing expectations lead to new customer demands. Banks are considered the most important financial institutions in a country's economy (Rose, 2002).

Banks represent an example of customer-oriented organisations (Grigoroudis, Politis & Siskos, 2002). Products are not well differentiated and the only real differentiation in the market is the service offering. Whilst it is a highly competitive marketplace, banks have realised that their customers are their most valuable assets (Cheese, 1994). In addition, it is interesting to note that the lack of clear customer ownership or customer focus is a very important obstacle to success in large, diversified banks (Murray, 2004).

Banks are profit-generating organisations that must recognise customers' wants, needs, desires, expectations, and problems, whilst satisfying these needs at a profit to the bank, to ultimately create shareholders' wealth (Gibbs, 1985). Local banks have been compelled to end their historic focus on recruiting new customers and extending their market share, and now, more importantly, need to concentrate on retaining their customers. Customer acquisition historically commanded a high portion

of the marketing resources, however, the focus has moved towards customer retention.

The current economic outlook in South Africa (SA) is very bright (Standard Bank, 2005). A low interest rate environment (in South African terms) exists, strengthening of the rand versus the dollar, consumer spending is thriving, inflation is under control, and the underlying economic principles are sound.

It is generally accepted that South Africa has a very sophisticated banking infrastructure and offers internationally competitive services and products (South African Reserve Bank, 2003). The big four banks dominating the retail banking industry are ABSA, First National Bank, Nedbank, and Standard Bank (big four). They have strong and well-established retail banking divisions, which offer services and products to the personal and business markets. Amongst them they have over 2500 retail branches and points of representation in South Africa, and employ over 124 000 people. The number of retail accounts exceeds 26 million, and is expected to grow to over 30 million by 2006. The big four banks had over 15.9 million retail customers in 2003, which is projected exceed 18.4 million in 2006.

The barriers for entry into the SA retail banking industry are very high. However, threats from global players and niche banks cannot be excluded. The competitive landscape has changed and the banking environment has become more complex, with non-banking institutions also competing for the same market. Financial services institutions include various groups, namely banks, finance companies, insurance companies and even non-financial and non-traditional retail companies involved in financial services. These groups and the services they provide are not segregated, but overlap in many instances. The financial services offerings involve a broad range of products and services, for example, cheque accounts, credit cards, deposits and savings, leasing, loans, investments, transactional services, electronic services, and insurance. According to Yorke (2001: 15), banks operate in five “businesses: cash accessibility, asset security, money transfer, deferred payment and financial advice”.

The main strategic and emerging issues in the South African banking environment include the following (Bachman, 2001; Metcalfe, 2002; Metcalfe, 2003):

- The financial services landscape has changed, with the Financial Services Charter leading the way.
- Drivers of change in banking continue to be new information technology and increased sophistication of customers. However, a new trend has emerged as customers are returning to branches for one-to-one personal interaction.
- Shortage of skills and the 'brain drain' are major threats to the local banking industry.
- Affirmative action is a major issue, and recruiting of good personnel remains a challenge.
- The market continues to be very competitive and the rationalisation of domestic and foreign sectors could further complicate the business environment. The latest trend in the market is the interest shown by foreign banks in favour of mergers and acquisitions of local banks, for example, Barclays Plc's acquisition of ABSA and Standard Chartered Plc's acquisition of 20Twenty.
- Retail banking has remained the domain of the big four, with future growth aimed at the mass market, as well as expansion into Africa. In the retail banking market in SA the level of market penetration has reached a fairly saturated point in the middle to upper personal and commercial segments, whilst in the mass market, a major untapped market exists.
- Consolidation, instability of the rand, corporate governance, capital requirements, the Financial Service Charter, Black Economic Empowerment,

and alignment of foreign banks have been identified as the most important developments in the SA market.

- Governance and strict regulation and controls, for example, Money Laundering, Financial Intelligence Companies Act Regulations and Know Your Customer (KYC) requirements.
- Profit performance, service quality and customer focus remain pressing issues for banks.
- Image and reputation have become critical for banks, and are seen as a measurement of success.

Other factors characterising this industry include: the intangible nature of services and products, the importance of the distribution network and convenience, geographical dispersion, risk, wide range of products, increased regulation, innovation, and wireless technology. The new capital accord – Basel II – has placed more demands on the banking industry and will undoubtedly impact on the future operations of banks.

1.8 Clarification of concepts

- **Business customers** are business account holders at retail banks, and include any commercial small-and-medium enterprises, companies, close corporations, firms, trusts, and partnerships. These customers are normally represented by individuals or small groups of owners. The decision makers and management teams are normally the same people. It is further important to note that these business customers do not refer to complex, corporate structures, where behaviour and decision making are controlled and involve complex decision-making processes. They rather represent very simple

structures, and decision-making behaviour is very similar to that of traditional consumer behaviours.

- **Cross-sales** involve the selling of additional products and services. For example, certain customers will use core products (cheque account), but could also benefit from using additional products (electronic banking, insurance, savings) across different divisions of a bank.
- **Customer lifetime value (CLV)** involves the net present value of a customer, which represents the discounted value of the cash flow generated over the life of their relationship with a company.
- The **market** represents a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various products or services that satisfy their needs.
- The **marketing mix** refers to the four P's - product, price, place and promotion.

1.9 Plan of the research report

In Chapter 1 an orientation of the study is given, including a broad outline of relationship banking and customer loyalty. A brief overview of the South African banking industry is given, with the focus on the challenges of retail banking. The objectives, scope, limitations and importance of the study are also discussed.

In Chapter 2 the theoretical foundation of the study is given. It includes a study of the important issues relating to relationship marketing, customer relationship management, segmentation and consumer behaviour. All these aspects impact directly on the key aspects of the study: relationship banking and customer loyalty.

Chapter 3 is a literature review of the past and current views of relationship banking and how it affects customer loyalty. The review also includes previous research done and views on customer loyalty. The aspects are placed in the context of the retail banking environment. The chapter ends with an integrated look at relationship banking and customer loyalty.

In Chapter 4 the research problem is defined and placed in context. The problem statement is also given as well as the hypothesis.

The research design and analysis are discussed in Chapter 5. In Chapter 6 the results of the study are provided, which are then discussed in Chapter 7. Chapter 7 also includes a general conclusion and recommendations.

CHAPTER 2: THEORETICAL FOUNDATION OF THE STUDY

2.1 Introduction

Chapter 1 gives a broad overview of the retail banking industry and identifies the main challenges of this industry. The chapter briefly states the importance of relationship banking as a business imperative to ensure customer loyalty in the retail banking industry. Relationship banking as a business strategy to increase customer loyalty is identified as the challenge for management.

This chapter explores the study fields of relationship marketing, customer relationship management, and market segmentation and consumer behaviour. It also discusses theory related to the above-mentioned aspects of marketing and links it to the basis of the study, which is the effect of relationship banking on customer loyalty.

In Section 2.2 the theory of relationship marketing is explored in order to understand the origin of relationship banking as a marketing strategy in the context of the study.

In Section 2.3 the applicable theory of customer relationship management and its relevance to relationship marketing is covered.

In Section 2.4 segmentation is covered as it relates directly to the essence of qualifying customers for the relationship-banking offering.

In Section 2.5 consumer behaviour is discussed, with the main focus on the relevance of the consumer behaviour matrix as a model for analysis. The importance of consumer behaviour is highlighted, and related to the impact of customer loyalty.

2.2 Relationship marketing

2.2.1 Defining relationship marketing

The best definition of relationship marketing, as seen by Harker (1999), Bennett & Durkin (2002) and Howcroft, Hewer & Durkin (2003), is by Grönroos (1990; 1994a), which covers all the underlying conceptualisations:

“Marketing is to establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of all parties are met. This is done by mutual exchange and fulfilment of promises” (Grönroos, 1990: 138).

2.2.2 Relationship marketing theory

The challenge for most companies today is to thrive in a relationship economy (Cap Gemini Ernst & Young, 2005). Competition for the most profitable customer relationships is extremely tough and companies need to know who their customers are. This includes aspects like their preferences, their habits, and their experiences with companies and very importantly, their value. Customers have become very demanding and their expectations have increased to new heights. The environment has evolved into a complex landscape, which has resulted in the high value placed on relationship marketing today.

Relationship marketing has evolved from a primary focus on consumer goods in the 1950s, industrial marketing in the 1960s, non-profit and societal marketing in the 1970s, services marketing in the 1980s and finally, relationship marketing in the 1990s (Christopher, Payne & Ballantyne, 1991). Grönroos (1994a) states that a paradigm shift is evolving in marketing from the focus on the four P's of marketing – product, price, place and promotion – to a new approach based on building and management of relationships. Relationship marketing, as part of marketing, involves the relationships and interactions between customers, suppliers, competitors, and

others. This however, does not mean that the four P's are less valuable, but that the focus has moved to a new paradigm where a more market-oriented drive and the customer as focal point are suggested as the marketing concept. Relationship building can be seen as the cornerstone of marketing (Grönroos, 1994b).

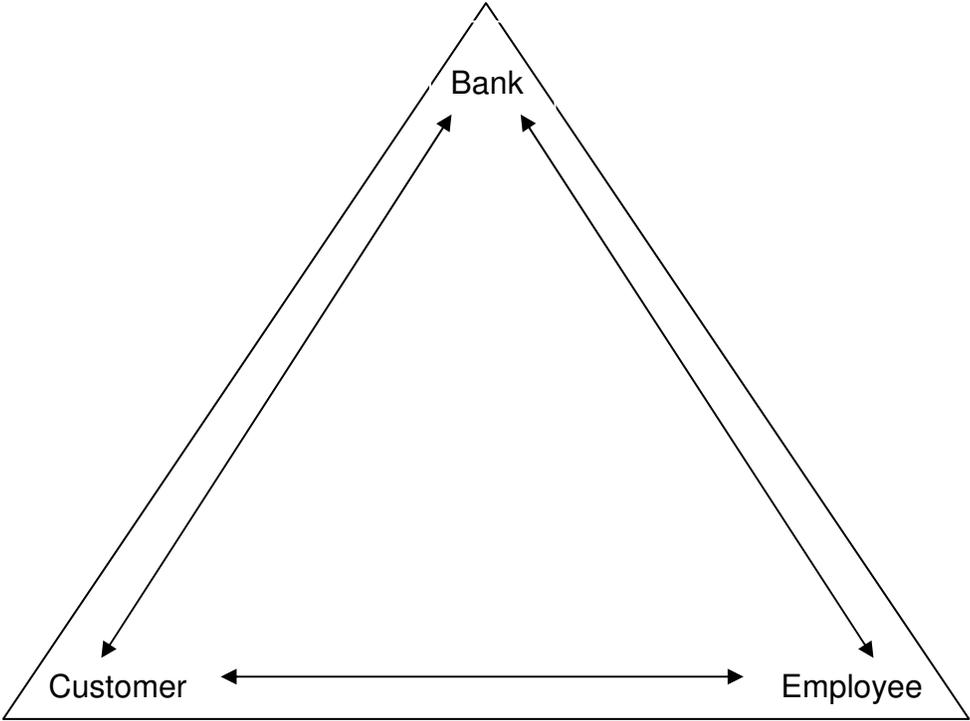
Relationship marketing has focused on customer retention, service, and product benefits, a long-term scale, service emphasis, high customer commitment, customer contact, quality, and finally customer loyalty (Cheese, 1994; Gummesson, 1998; Abratt & Russell, 1999). Relationship marketing's focus is to move customers up the ladder of loyalty (Voss & Voss, 1997). The relationship marketing strategy also seeks to change the market demands in favour of a particular company by providing unique value, which must be sustainable over time. Relationship marketing is seen as a combination of quality, customer service, and marketing. The key relationship is based on the relationship between the supplier and the customer. All of this reflects the notion that the centre of the relationship marketing philosophy is to make the most of existing customers (retention) to enable the company to make long-term profits.

Relationship marketing is similar to the concept of one-to-one marketing. One-to-one marketing means "to be willing and able to change your behaviour toward an individual customer based on what the customer tells you and what else you know about that customer" (Peppers, Rogers & Dorf, 1999: 3). It is grounded in the principle of establishing a learning relationship with each customer, with the focus on your most valuable ones.

The marketing concept sees customer satisfaction as the highway to profits (Perreault & McCarthy, 2002). However, although it seems logical, it is not automatic, as satisfaction does not by itself lead to profits (Gummesson, 1998). The customer relationship must be maintained to sustain repurchase loyalty and retention, which will lead to profitability. Customer value reflects benefits and costs, or the difference between the benefits from the market offering and the costs of obtaining the benefits. Providing continuous value to customers underpins the relationship (Cram, 2001).

Banks that embrace the marketing concept see relationship banking as the way to build loyal and profitable long-term relationships with each customer. Relationship-based marketing can result in long-term retention, which leads to improved financial and market performance, and an increased competitive edge. It is further concerned with the building of bonds with customers to ensure long-term relationships of mutual advantage. Figure 2.1 illustrates the inter-relationships that exist between the bank, customer and employee. For relationship marketing to be successful two-way relationships must exist between the three parties of the triangle (Bennett & Durkin, 2002).

Figure 2.1 Inter-relationships of relationship marketing in banks



Source: Bennett & Durkin (2002: 204)

Part of the wide field of marketing is concerned with the exchange relationships between a company and its customers. Companies need to be marketing-oriented, customer-focused and customer-orientated (Christopher et al, 1991). Relationship marketing has been addressing the importance of getting customers, but also, more importantly, keeping customers and building an ongoing relationship (Rayner, 1996). It is no longer sufficient to merely provide the customer with technical solutions to be competitive. To create customer loyalty, various value-added services, which start long before the transaction and continue far beyond it, must be delivered (Wetzels, de Ruyter & van Birgelen, 1998). The concept of relationship marketing is embedded in services marketing and incorporates service delivery processes. The relational exchange can provide a competitive advantage and create barriers to switching. To be effective and successful the relationship marketing philosophy needs the support of the people in the other departments and business functions on an integrated basis.

However, it is not always possible for companies with large customer bases to have close relationships with all their customers (Bennett & Durkin, 2002). Not all relationships also need to be at the same level of intimacy. An appropriate relationship marketing strategy will ensure that customers are managed by market or segment level.

According to Gummesson (1998) and Abratt & Russell (1999) there are certain themes emerging in the relationship marketing literature:

- Placing emphasis on the relationship rather than on a transaction approach to relationship marketing. The focus is to increase customer loyalty and customer retention. Banks need to know their customers, what their needs are and cross-sell throughout the banking group. The relationship is also based on equal and respectful terms.
- Companies must understand the economics of customer retention. They need to ensure the appropriate allocation of marketing resources to existing

customers. The increased retention will lower costs and can lead to increased productivity.

- Customer segmentation is critical for an effective relationship marketing strategy. This involves targeting certain profitable customers and maximising the lifetime value of desirable customers and customer segments. The relationship is based on a win-win scenario where all parties involved receive increased and mutual value.
- Marketing and quality customer service needs to be integrated. The extent to which the client perceives the relationship banker to be acting ethically will influence relationship quality. This will lead to the establishment of trust and will build commitment throughout the length of the relationship.
- Companies need to care for existing customers and increase their share of spending.
- The four P's (marketing mix – product, price, promotion and place) do not adequately explain the key issues of building a sustained long-term relationship.
- There is a growing awareness of the importance of operational issues such as organisational structure and training for banks. As knowledge about the customer builds up, the bank moves into a position to better satisfy individual customer needs.
- Relationship marketing can be applied to various market domains and not just consumer markets. Relationship marketing can differentiate a company and lead to competitive advantage. An example is customers who become less sensitive to price over time.

2.2.3 Relationship-based selling

Relationship-based selling represents a structured and scientific customer relationship management system to optimise customer value (Council on Financial Competition, 2002). The focus is no longer only based on volume driven cross-sales and winning new customers. York (2001) points out that companies must become outward looking and achieve their objectives through customer satisfaction and developing customer loyalty. Selling must be based on the needs of the customer and must be a dimension of service (Ferreira, 2004). A key dependent of relationship selling is the development of a culture of employee empowerment (Bennett & Durkin, 2002).

Competition in the retail banking environment has become more complex and dynamic. To achieve retention and loyalty, banks have to pay more attention to the relationships with their clients. A higher level of commitment in the relationship will result in more durable loyalty (Reichheld, 1994; Iniesta & Sánchez, 2002). Commitment is the highest level of relational union (Wetzels, De Ruyter & van Birgelen, 1998), and will invariably lead to sales to satisfy needs.

Bennett & Durkin (2002) state the importance of a relationship-based sales culture, which is based on the following three sets of relationships: internal relationships within the bank; relationships between staff and customers; and the relationship between the bank and the environment. The successful application of this model should lead to high levels of employee commitment and an integrated and focused customer relationship management strategy.

2.3 Customer relationship management (CRM)

2.3.1 Defining CRM

Perreault & McCarthy (2002: 84) define CRM as an approach where “the seller fine-tunes the marketing effort with information from a detailed customer database”. Stringfellow et al (2004: 45) define CRM as “understanding customer needs and leveraging that knowledge to improve a company’s long-term profitability”.

CRM is a customer-centric approach and focuses on the long-term relationship with customers (Gray & Byun, 2003). CRM aims to provide the customers’ benefits and values from their point of view and not based on what the company wants to sell. The main principles of CRM implementation include personalisation, loyalty, and lifetime value. Customers need to be treated individually; customer loyalty needs to be acquired and retained through a personal relationship; and they need to be selected based on lifetime value (select “good” customers, not “bad” customers). The four basic roles or goals of CRM include the following:

- **Customer identification.** The company builds up information about its customers over time through transactions, interactions and other marketing channels. They need to know who their customers are and what their needs are to enable them to provide a value offering service or products.
- **Customer differentiation.** Customers are different based on lifetime value, unique demands and requirements.
- **Customer interaction.** The company continuously needs to learn about the customers as their demands change. In addition, it is important that the company keeps track of customer behaviour and needs.

- **Customisation/personalisation.** The motto of CRM is that customers need to be treated in a unique manner. Customer loyalty can be increased through a personalisation process.

The main benefits of CRM include the following:

- Improved retention and acquisition ability of the company.
- To maximise the customer's lifetime value.
- Improving customer service, without an increase in costs.

A CRM programme that is successful will help a company to create wealth and sustain growth by linking with customers and receiving value through the relationship (Cap Gemini Ernst & Young, 2005). Companies cannot generate sustainable growth without growing the value of its customer base. A disciplined CRM programme can assist the company to realise relationship value and growth through either effective targeting or acquiring customers, cross-selling, cultivating existing relationships and by improving customer loyalty.

2.3.2 Customer relationship management systems

Being close to your customers has undoubtedly been one of the key successes of relationship management. Konusuke Matsushita, the legendary founder of the Matsushita electronics group, counselled his sales team to take the customer's skin temperature every day (Bhote, 1996). The bonds of trust that build up between a company and its core customers are based mainly on the close and personal relationship between the relationship banker and customers. This close relationship does not refer to any kind of friendship or favouritism, but rather to a partnership or relationship that brings mutual benefit.

The success of the relationship also depends on the partners understanding each other (Cheese, 1994). Part of this process is building up data on customers as well as storing the data, which again should be easily available for usage at any point in time. Due to the volume of customer information it should be stored on a computer database or customer relationship management system. The data usually includes data on customers' past purchases as well as additional segmenting information. Customer relationship management is an approach where the company improves the marketing effort with information from a detailed customer database (Perreault & McCarthy, 2002). The underlying purpose of CRM is to unlock the value of the relationship assets in a company to enable acceleration in revenue and profit growth (Ellis, 2004; Kennedy, 2004). Utilising CRM in meeting the customer's immediate and long-term needs enables companies to build customer loyalty and long-term relationships to the benefit of both parties. The implementation of CRM systems in the banking sector provides the means to conduct interactive, relevant and personalised communications with customers (Grigoroudis et al, 2002). An integrated CRM system will also deliver a seamless and consistent customer experience (Cap Gemini Ernst & Young, 2005).

CRM systems can be used by the relationship bankers in providing them with a detailed profile of each customer or a single view of the customer (Stoneman, 1999). These powerful customer-information systems have become a critical strategic focus for banks around the world. Relationship banking builds on the current trend of CRM or data driven optimisation of customer relationships (Cram, 2001). The CRM system does not create customer loyalty by itself, but assists in identifying critical information about customers and who the most valuable customers are. It supports the process of relationship banking in moving closer to the customer (Jarrar & Neely, 2002, Barnes & Howlett, 1998). CRM techniques are also used to support communication and to promote consistent messages throughout a business to both customers and staff (Lovewell, 2005). The CRM system is also a tool to firstly store and secondly share customer information held by relationship bankers (Murray, 2004).

It is however very important that banks use the confidential information sensitively and with utmost respect (Fournier et al, 1998). Customers experience a level of discomfort when banks continuously request similar information from them, but from different business units. The collection of data must be coordinated from a single point of contact, and distributed to other units or product divisions as required. A further irritation for customers is if the information is not utilised effectively.

2.3.3 CRM and customer loyalty

Customer relationship management is all about building relationships with the most valuable customers of companies (Rigby, Reichheld & Dawson, 2003). The aim is to know customers well enough and determine the kind of relationship those customers want. CRM is a strategy and tool that can assist companies with increasing customer loyalty by tracking satisfaction levels, defection and retention. To start with companies need a customer-centric strategy, they need to realign the organisation and processes to fit this strategy and then choose the most suitable CRM system to support this strategy. The CRM efforts will assist companies to grow, nurture and protect their most valuable asset, which is their customer relationships (Cap Gemini Ernst & Young, 2005).

2.4 Market segmentation

2.4.1 Defining market segmentation

Marketing-oriented companies define segmenting “as an aggregating process – clustering people with similar needs into a market segment” (Perreault & McCarthy, 2002: 74). Similarly, Churchill & Peter (1998: 201) define market segmentation “as a process of dividing a market into groups of potential buyers with similar needs and wants, value perceptions or purchasing behaviour”. A market segment represents a homogeneous group of business customers who will respond similarly to a service

offering or marketing mix. The target market represents the particular market segment that a company chooses to serve (Martins, 2002).

Strydom, Cant & Jooste (2000) identify the following four types of segmentation: demographic, geographic, psychographic and behavioural segmentation. The focus of this overview is on the behavioural segmentation process, which refers to the segmentation of buyers or customers into groups on the basis of their knowledge of, attitude towards, use of or response to a product or service of a company. The behavioural variables identified by Kotler (2000) include:

- Occasions – occasional buyers develop needs, purchase, or use products.
- Benefits – refer to the benefits that buyers seek.
- User status – includes potential users, regular users, non-users, first-time users or ex-users.
- Usage rate – will include light, medium or heavy users.
- Loyalty status – are classified as hard-core loyals, split loyals, shifting loyals and switchers.
- Buyers-readiness stages – where the customers are either aware or unaware of the product or service, informed, interested, have a desire for the product or service and have intent to buy.
- Attitude – enthusiastic, positive, indifferent, negative and hostile.

2.4.2 Importance of market segmentation

The current trading environment has resulted in customer segmentation becoming a crucial strategic aspect for service providers (Alfansi & Sargeant, 2000). Companies should be selective in choosing their customer base, not out of arrogance, but out of humility in recognising that it is impossible to be special to everyone. Reichheld (2001) believes that it is absurd and unfair to treat unprofitable customers the same as highly profitable and loyal customers. Similarly companies should invest more resources in relationships, which are more deserving or more profitable (Bennett & Durkin, 2002). Grönroos (1994b) deemed segmentation based on customer relationship profitability as a prerequisite for customer retention decisions.

Differentiating between customers enables a company to focus its efforts and gain the most advantage from the most valuable customers (Peppers et al, 1999). This will enable the company to tailor its behaviour to each customer or segment, in order to indicate the customer's value and needs.

The company needs to find and keep the right customers. The 80/20 principle applies to focus loyalty building on the 20 percent of customers who provide the majority of profits (Cram, 2001). However, companies should always treat all customers honestly, fairly, with dignity and respect, but they can only afford to be loyal to those that can help them build mutually beneficial relationships. Banks must be honest about their commercial intent, and whilst the bottom-line is that they want the customers' "money", they must prove that the deal is a good one and the relationships are beneficial to them. The key is to be open to customers on this issue and not to make promises that cannot be kept (Fournier et al, 1998). The remaining 80% must however still be profitable to some extent and create value for the bank.

Companies that want to maximise sustainable growth and profits need to focus on the right target customers. The right customers are those to whom the company can provide the best value over a sustained period (Reichheld, 2001). As customer

acquisition involves an up-front investment, which will only be repaid over the lifetime of the customer, choosing the right kind of customer will inevitably result in long-term cash flow annuities, referral growth, and employee satisfaction. As customers differ through their needs, segmenting them is a very important first step for companies (Cheese, 1994; Stewart, 1995). Not all customers are similar, nor their demand for financial services. Priority groups of customers can be targeted once their different needs are understood, and can be serviced through different delivery channels. The criteria most commonly cited for segmentation include “identifiability, sustainability, accessibility, stability, responsiveness and action ability” (Alfansi & Sargeant, 2000: 65). The segmentation should be based on customer needs, differentiation from the rest of the market, should make commercial sense and be defined in such a way that it allows access to the customers within them. Segmentation of business customers in the retail banking industry is mainly based on annual turnover and contribution, which provides commercial sense based on affordability to build relationships (Grönroos, 1997). Stoneman (1999) deems measurement of profitability at customer level as the basis of segmentation in the banking environment. However, sight must not be lost of the silent majority who also contribute to cover the bank’s basic costs. Banks thus normally segment the market according to customer profitability, prioritise these segments, and then decide what investment should be made to support each segment. An important aspect of the segmentation process also includes customer needs and the use of certain products or services. These products and services are aligned to package offerings, which are very much in line with profitability segmentation. The success of relationship banking rests heavily on the correct market segmentation, and the implementation of the relationship banking strategy on the target market to create value to the organisation (Yorke, 2001).

The latest development in segmenting options involves segmenting based on the lifetime value perspective (Johnson, 2002). With the availability of technology, companies are able to gather large volumes of information about customers, including profitability. The ability to project possible future and long-term profitability is being developed, which will enable companies to better project the value of a customer over

a lifetime. This again will enable companies to make segmenting decisions based on future possibilities and not just on past performance and behaviour.

2.5 Consumer behaviour

2.5.1 Defining consumer behaviour

Walter & Bergiel (1989: 9) define consumer behaviour as “those decisions and related activities of persons involved specifically in buying and using economic goods and services”. Consumer behaviour includes the mental decisions and physical actions that are related to the buying decision.

Similar to final consumers, business customers also make a purchase or make use of services to satisfy needs (Perreault & McCarthy, 2002). These business customers mainly focus on economic factors when making a purchase decision and are usually less emotional than final consumers. Dependability, mutual trust, and a long-term outlook play an important role for these customers. However, a close working relationship may produce mutual benefits. These types of relationships have become common in the business environment.

Companies that use customer relationship management systems normally utilise the transactional data of purchase frequency as a means to measure the behavioural loyalty of customers, which is an important predictor of customer value (Stringfellow, Nie & Bowen, 2004). Data on attitudinal loyalty is however rarely measured or considered, Attitudinal loyalty refers to the customer’s feelings about keeping a long-term relationship with a company. Reinartz & Kumar (2002) found that attitudinal loyalty related to the customer’s tendency to recommend a company to others. Vence (2002) stated that such word-of-mouth referrals are very effective, as they are from a credible and trusted source.

2.5.2 Consumer Behaviour Matrix

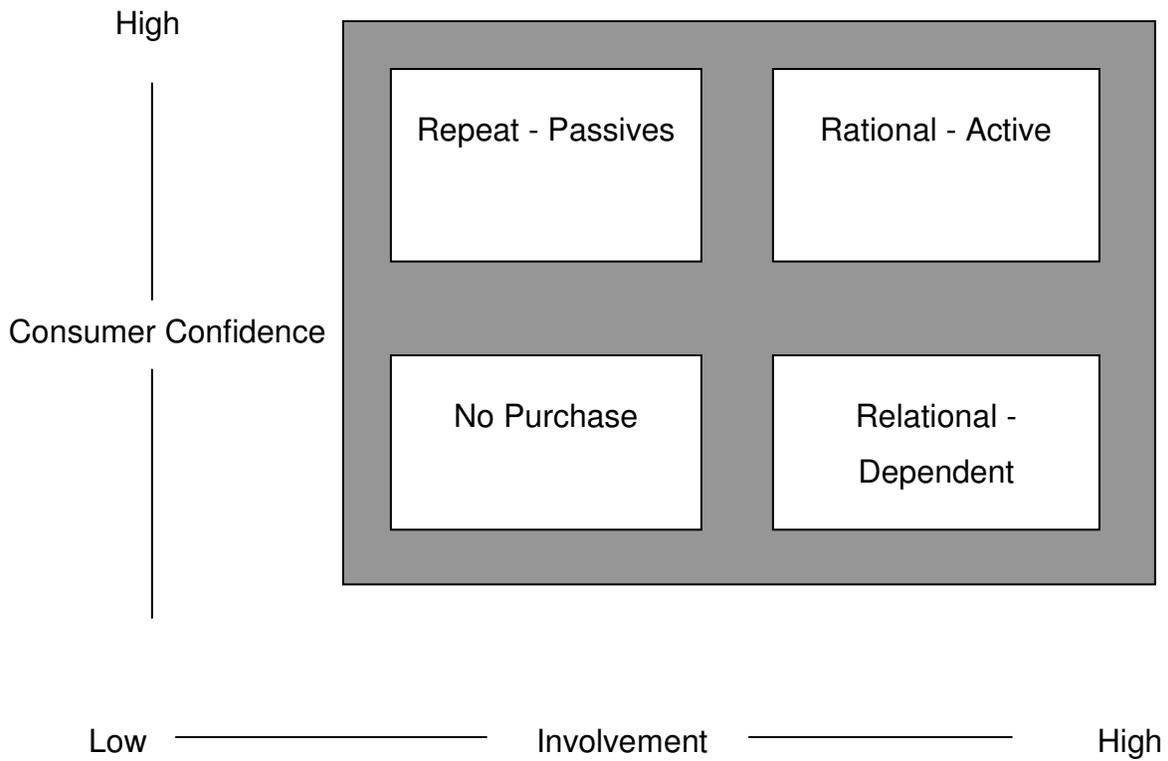
Beckett, Hewer & Howcroft (2000) developed a model, Figure 2.1 – the Consumer Behaviour Matrix, in order to articulate and categorise consumer behaviour in the purchasing of financial services and products. The deregulation of industries and the emergence of advanced technologies have enhanced the competitive environment, which critically impacts upon consumer behaviour. Customers can change their purchasing behaviour more easily when purchasing financial products or services. Banks are also less certain of the support from their customers and if the traditional relationship will be strong enough. To ensure retention and long-term profitable relationships, banks will have to understand their customers better and attempt to determine and influence customer-buying behaviour.

The Consumer Behaviour Matrix describes the purchasing options and contracting alternatives available to customers when they buy products or services. The quadrants represent different mixtures of involvement and uncertainty to explain the interactions when customers make purchasing decisions to satisfy their needs. The model also incorporates factors relating to the importance of trust and loyalty, as well as customer participation. These considerations are important for the creation and maintenance of relationships, and explain customer motivation and behaviour.

2.5.2.1 Repeat-Passive

This quadrant includes those customers who are fully aware of the product and service characteristics. Their involvement is low and they will make repeat purchases without seeking alternatives. This is also referred to as “behavioural loyalty”. Support of a specific brand is a good example of this type of purchasing behaviour. The customer is very confident and will only switch from this brand once a better alternative becomes available. Based on the certainty of the decision, “costs” are reduced, and little involvement from the seller is required.

Figure 2.1 Consumer Behaviour Matrix



Source: Beckett et al (2000: 15)

2.5.2.2 Rational-Active

This quadrant implies that the customer's involvement and confidence is high. The involvement is high, based on process dimensions of participation, control and contact. Confidence is high based on product or service complexity and certainty of the outcome. The consumers act rationally in their decision-making process. A good example is buying commodity goods such as milk. There will be no interactions after the purchase transaction and a clear division exists between benefits and cost.

2.5.2.3 No Purchase

In this quadrant the customer has no involvement with the financial service provider and does not possess the confidence to make the purchasing decision. No purchasing decision will be taken in such circumstances. An example is funds that are kept on deposit instead of buying financial services, which will provide better returns.

2.5.2.4 Relational-Dependent

Customers in this quadrant are very involved, but not in control of the purchasing decision. They lack control due to the complexity of the product and service, and uncertainty of the outcome. Circumstances like these will result in reduced customer confidence. The dependent customer will seek advice from his bank, thus a relationship will be formed which will reduce uncertainty and assist in structuring purchasing decisions. Relational contracting is an important aspect of customer-banker relationships. Customers want to make informed decisions and will draw on the assistance and expertise of their informed banker. In this relationship, trust plays a critical role.

2.5.2.5 Customer loyalty, relationship banking and consumer behaviour

In an environment where it is critical for banks to ensure customer retention and cross-selling, it is important to respond strategically to changes. Customer loyalty describes the tendency of customers to choose one bank or service over another for a particular customer need (Novo, 2004). Customer loyalty becomes apparent when choices are made and actions taken by the customer. The Consumer Behaviour Matrix, Figure 2.1 is used to indicate the relationship between consumer behaviour, the importance of the relationship, and loyalty.

The focus is on the Relational-Dependent quadrant as it refers to a purchasing environment where the consumer is highly involved, but not in control due to the

complexity and importance of decisions, which reduces the customer's confidence. This is typical of an environment in a bank, where the relationship-banking offering is provided to business customers.

The Repeat-Passive quadrant also refers to a purchase behaviour pattern, which involves behavioural loyalty or making repeated purchases without actively seeking alternatives, for example, brand loyalty towards fast-moving consumer goods. It is also evident that consumers exhibit a behavioural loyalty, rather than an attitudinal loyalty towards banks. Behavioural loyalty is primarily characterised by repeat-passive purchasing, whilst attitudinal loyalty relates to holding positive or negative attitudes towards banks. An example of repeat-passive purchasing includes transactions associated with a current account.

In the Relational-Dependent quadrant the customer will seek advice and help from the relationship banker to reduce the uncertainty of purchases. The customer can therefore be described as a "dependent consumer". This relational contracting is clearly a critical aspect of the banker-customer relationship. If a customer forms a relationship with a bank or rather the relationship banker, the customer reflects his preference of rather forming a relationship with alternatives. An example of purchasing in this quadrant includes complex financing requirements or long-term investments. To sustain a competitive advantage banks need to focus on the dynamics of the relational dependent quadrant. The relationship marketing approach should be followed in this quadrant which is based on the premise that consumers develop relationships with banks on the basis of loyalty and trust, which again leads to them making cross-purchases. This will also lead to creating entry barriers for competitors and increases the bank's competitiveness. The main aims of banks remain the maximisation of customer retention, loyalty and profitability.

2.6 Summary

The main focus of Chapter 2 is to provide a theoretical foundation for the study. The related theory includes an overview of relationship marketing, customer relationship management, segmentation and consumer behaviour. These aspects impact directly on and relate to the underlying study of relationship banking and customer loyalty, and assist in aligning the theory, literature, and primary research.

In Section 2.2 an overview of relationship marketing is given. Relationship marketing has been identified and referred to as the next “paradigm” in marketing, not replacing, but rather supporting the historical four P’s (product, price, promotion and place) or marketing mix. The theory indicates the value of long-term relationships in respect of retention, loyalty, cross-sales, and eventually, profitability.

In Section 2.3 attention is shifted to the importance and role of CRM. To end off the chapter the relationship marketing “circle” is closed through the identification of the importance of CRM and customer relationship management systems.

Section 2.4 provides a overview of market segmentation. The key steps of segmentation are identified: market segmentation and market targeting. The role of segmentation in relationship and consumer behaviour (also loyalty) is stipulated.

In Section 2.5 the focus is on consumer behaviour. The importance of consumer behaviour as part of relationship building is indicated, and the Consumer Behaviour Matrix (Beckett et al, 2000) is used to explain aspects of consumer behaviour.

Throughout the chapter, relationship banking and customer loyalty are integrated to ensure that a “golden thread” exists.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

Chapter 2 explored the study field and theory of relationship marketing, customer relationship management, market segmentation, and consumer behaviour. The theory supports the basis of the research, which is to determine the effect of relationship marketing or relationship banking on customer loyalty.

In this chapter, trends and views on relationship banking and customer loyalty are discussed. The chapter firstly focuses on views of and research done on aspects that are related to relationship banking. Secondly, it discusses research done on customer loyalty and concludes with a discussion of the integration of relationship banking and customer loyalty.

In Section 3.2, relationship banking is addressed focusing on its background, application need, and value. It also reviews research done on relationship banking from the relationship banker and customer point of view.

In Section 3.3, customer loyalty is reviewed with a focus on its background, evolution, opposing views, types, and measurement models. There is also an emphasis on customer retention, defection, and disloyalty. The advantages of customer loyalty are reviewed, with short references to related loyalty aspects such as customer service, price, and branding. Lastly, a summary of factors that lead to customer loyalty are pointed out.

The chapter concludes with a summary of the integration aspects of relationship banking and customer loyalty, in Section 3.4.

3.2 Relationship banking

3.2.1 Defining relationship banking

“A long-term, intimate and relatively open relationship is established between a corporation and its bank. Banks often supply a range of tailor made services rather than once-off services” (Life Style Extra, 2005: no page).

3.2.2 Introduction to relationship banking

In the early eighties, Levitt (1981) referred to a banking relationship as the process of becoming the designated supplier, which requires a successful passage through several consecutive stages in the sales process. For him it is not unlike courtship, but unlike real marriage, as banking allows no room for divorce. Companies try to develop stronger bonds and loyalty with their customers (Kotler, Armstrong, Brown & Adam, 1998). Most bankers recognise the need to build and maintain a close relationship with customers (Rauch, 1993). The goal for banks is to “own” the relationship with the customer and use the relationship as a competitive advantage (Abratt & Russell, 1999). However, most banks have been unsuccessful in implementing relationship-banking strategies, as they have been unable to make the shift to a relationship-based sales culture (Schneider, 2003). Levitt (1983) noted that the relationship between buyer and seller seldom ends after a sale, as the relationship normally intensifies after the sale, which helps determine the buyer’s choice next time around. This usually occurs when a service is provided over the long-term or when the nature of the purchase is complicated and important as financial services. Buyers want suppliers who keep their promises. Other determinants of relationship satisfaction, from the customer’s perspective include factors such as trust, customer orientation, expertise, business ethics of the service provider, and the length of the relationship (Bejou, Ennew & Palmer, 1998). The development of customer relationships is recognised as a critical component of marketing strategies of financial service industries.

Cheese (1994) relates the importance of relationship banking directly to business growth and profit potential of companies. This is based on the effects of relationship banking and long-term relationships, which lead to customer retention, loyalty, and lifetime customer value (Iniesta & Sánchez, 2002). However, traditionally banks remain poor performers on cross-selling as they underestimate the value of their customer relationships. Most banks have focused on new sales and volumes rather than on customer retention, relationship building and loyalty. The focus must be on the customer, by building long-term relationships through providing them with the right mix of product, channel of access, and service attributes. The underlying principles of any personal relationship are based on trust, shared values, and mutual benefits as the foundation of a long-lasting relationship. These principles must also be adopted by businesses, as people drive commerce. The importance of price is also diluted if a strong and well-founded relationship exists.

Customer retention is the process by which an organisation identifies and maintains a relationship with prime customer groups. Such relationships should add value to both producer and consumer. The decision of the organisation to serve these customers is based on a forecast of the economic lifetime value of the customer. Customer defection can still take place even though a personal relationship exists between customer and bank, however, newly-formed relationships are more susceptible than well-established relationships. Well-established relationships tend to survive a series of mistakes, whilst in a weak relationship it will break down. Research on customer retention indicates that where the involvement between customer and bank is high, customers are more conversion resistant (Cheese, 1994). Where involvement is low, there is more probability that a customer will switch from one bank to another. Thus, satisfied customers can also be candidates for defection if no well-established personal relationship exists to bind the customer. However, improving customer satisfaction in a personal banking relationship can enhance retention. Evidence exists that a successful recovery of a relationship that was dormant, lost, or negatively impacted by a complaint, will reduce the probability of that customer defecting in future. This will also lead to strengthening the existing relationship.

Banking products have proliferated due to technological innovation and increased competition. As banking products' uniqueness and lifetime have been shortened, a customer relationship based on a specific product is short lived (Gibbs, 1985). The focus must rather be on establishing long-term institutional relationships with customers. As customer linkages based on individual products come and go, institutional relationships will persist and result in cross-selling of additional products. Relationship banking depends critically on its implementation and requires a substantial investment of resources before it becomes successful (Moriarty, Kimball & Gay, 1983).

3.2.3 Relationship banking and the relationship banker

The individual responsible for building the relationship with the customer is called the relationship manager (Wetzels et al, 1998), relationship banker, account manager (Gibbs, 1985), customer relationship specialist/customer services manager (Cheese, 1994), account executive, or portfolio manager. For consistency, the individual responsible for managing this relationship with the customer has been and will be referred to as the "relationship banker". The relationship banker is responsible for delivering the key to success in the banking world, which is a customer-focused vision (Murray, 2004). The relationship banker's main roles are to deliver a service, and develop and build a relationship with the customer. The relationship refers to a one-to-one contact by the relationship banker with the customer (Ellis, 2004). Irrespective of age and social class, all customers prefer face-to-face interactions with their financial service provider, when purchasing complex and specialised services (Howcroft et al, 2003). Customers are also more likely to be retained by their bank if they have a personal relationship with a relationship banker (Abratt & Russell, 1999).

Part of the relationship banker's responsibility is service delivery, cross-selling and complaint resolution. However, cross-selling in itself does not lead to increased loyalty, and the focus must rather be on building a firm and trustworthy relationship with the customer to ensure loyalty (Ferreira, 2004).

The relationship banker should be customer-oriented and have the technical competence, knowledge of bank processes and procedures, experience, ability, and interpersonal skills to handle customers. In addition, employees who are more satisfied, motivated, and understand their role, tend to be more customer-oriented (Julian & Ramaseshan, 1994). Interpersonal skills and abilities include listening skills, strong verbal and non-verbal communication skills, experience in probing and questioning techniques, being empathetic, telephone skills, written communication skills, assertiveness, and negotiating skills.

The ability of the relationship banker to build confidence quickly is an important personality trait in relationship banking (Gummesson, 1998). Allowing the relationship banker to be involved in the relationship for longer periods will strengthen the relationship. The bankers' profile is important and it must be aligned with his portfolio of customers. For example, a young, dynamic banker should service a young and upwardly mobile customer.

The relationship banker must know what his role is and what is expected of him (Rauch, 1993; Murray, 2004). He must fulfil the selling role on both a re-active and pro-active basis. His relationship management skills must be continuously developed. He should be appropriately rewarded for achieving relationship-oriented and company goals.

The sales success of the relationship banker will depend on more than just applying good principles of salesmanship, but rather on understanding the nature of the banking relationship and providing products and services which are appropriate to the customers' needs. The importance of sales in banking is indisputable, however cognisance must be taken of the possible damage to a relationship if the balance is not retained between sales and service or if sales are pursued too aggressively. The basis of the relationship must always remain central in attempting to achieve a win-win situation.

In service industries the cost benefits of loyalty spiral directly from the human factor or employees (Reichheld, 1996; 2001; Ambler, 2003). This is evident in the manner in which long-term customers and employees interact and learn from one another. Customers who return for more business tend to be satisfied with the value received, and their satisfaction is a source of energy and pride for employees. Once employees become motivated they tend to stay longer and again learn to know their customers better, which again can lead to even better service, building greater customer satisfaction, improving the customer relationship and finally, positively impact on the company's results. It is hard to dispute the fact that the human factor of personal loyalty is a powerful aspect in business. It is critical to get the right employees to ensure that companies retain the right customers. It then becomes critical to retain the right employees. One of the first benefits for this is that it takes time to build personal relationships with customers. Another is that loyal employees should know much more about the company and its products or services (learning curve effect), thus increasing efficiency. To earn customers' loyalty, employees need to treat them in a manner that will inspire their trust and commitment. Loyal employees also reduce the cost for companies based on recruiting and training costs. Employee loyalty further affects customer number growth and retention.

Freemantle (1999) states that given a range of comparable and competitive products to choose from, in future customers will choose the company they like. In the main this means that they will be choosing the "people" they like. In the competitive banking industry it is easy to copy products, services and price, but it is virtually impossible to copy people. The relationship begins when the customer becomes involved with the company beyond the level of generating normal transactions and when the relationship banker provides an individual service that advances the transaction from impersonal to personal. This means that if the product and service offering is similar in a competitive environment, the customer will choose the people, which could be the only differentiating factor. This again confirms the importance of the relationship and that customer loyalty is partly formed because of the relationship between customer and relationship banker.

The high costs of the one-to-one offering however, necessitate senior banking executives to review the customer relationship management staffing profiles and customer offering, on a continuous basis (Murray, 2004). Some of the main obstacles for successful relationship bankers include: lack of cross-selling skills, wrong attitude or mind-set, lack of enthusiasm and energy, no clear customer ownership, poor analytical tools, loss of key people, and failure to address important customer issues.

3.2.4 Relationship dimensions from a customer point of view

In an environment where customers sometimes feel confused, stressed, victimised, trapped, and that the marketplace is insensitive and manipulative, it is very difficult for companies to build relationships (Fournier et al, 1998). The challenge for marketers is to create an environment of trust and forge intimacy in the connection. It is important to understand that a relationship takes two, and sometimes the customer is not a willing participant. A company must be willing to return the “favour” if it asked for the customer’s loyalty and commitment.

A good business relationship contains most of the characteristics sought in a personal relationship. Gwinner, Gremler & Bitner (1998) identify confidence benefits, social benefits, and special treatment benefits as elements that customers perceive as important in relationships. Customer orientation, trust, length of relationship, expertise and ethics are all determinants of a satisfactory relationship from a customer point of view (Bejou et al, 1998). Cram (2001) identified eight factors that customers look for in a living relationship with a retailer. Combined with the product and service, offering these aspects lead to superior service to the customers and the creation of customer loyalty. The factors include the following:

- **Reliable performance.** The customer wants to receive the benefits of the service or product, which it expects before buying it. Dependability is crucial and is the starting point of the relationship. It can be said that promises must be kept. Customers will remain loyal if they get the best value (Reichheld,

1996). The company must monitor and revise the value proposition that originally brought the customer to them.

- **Trust.** The element of trust builds up through consistent and reliable performance by the relationship banker or organisation. The factors that contribute to the development of mutual trust in the relationship include integrity, safety, availability, and access to information, honesty, personal contact, consideration, and unbiased advice (Barnes & Howlett, 1998; Wetzels et al, 1998). Trust is also defined as the willingness to rely on an exchange party in whom one has confidence (Grönroos, 1994b). Customers derive higher levels of trust via face-to-face interaction with their banker rather than through alternative channels such as electronic communication (Howcroft et al, 2003). In building a lasting relationship customers perceive it to be extremely private and valuable, and it is thus an imperative that the bank must treat it with care (Fournier et al, 1998).
- **Accessibility.** The relationship banker should be available for the customer at all reasonable times. The philosophy of customer visits into the customer domain has also become a differentiating experience enhancing competitiveness (Fournier et al, 1998).
- **Education.** Customers place a high reliance and value on the advice they receive. They expect guidance from the relationship banker. The knowledge, experience and expertise of the relationship bankers contribute to their credibility, thus positively impacting on the relationship. The relationship banker needs to get close to the customer and understand the customer's business by showing real interest and knowledge.
- **Individuality and brand association.** Many customers place a high value on individuality and expect to receive this as well in the relationship offering. Brand association and loyalty are also important factors for some customers. The brand values include statements about aspects like position, worthiness, status, and lifestyle.

- **Recognition.** By recognising the customers, they feel a sense of belonging. It is essential that the relationship banker identifies and recognises the needs of the customer. In research done by Barnes & Howlett (1998) the importance of how a financial services provider makes its customers feel was again emphasised. The emotional tone of the relationship impacts on the strength of the business relationship and increases loyalty.
- **Service and assistance.** Service is in many instances seen as the defining moment in a relationship with a customer. It is consistently raised as an important issue in customer surveys. Customers want fast service of a high standard.
- **Preference.** Customers appreciate preferential treatment, which is based on the value and worth of their relationship. They expect their loyalty to be rewarded by fair prices and appropriate attention.

If these dimensions are part of the relationship banker's behaviour it will result in the building of creditable and long-standing relationships with customers (Voss & Voss, 1997). However, not all relationships with customers can or need to be at the same level of intimacy or of the same duration. The relationship characteristics depend on the extent of the felt or actual dependencies between the bank and its customers (Bennett & Durkin, 2002; Barnes & Howlett, 1998).

Research done by Alfansi & Sargeant (2000) on segmentation of banks in Indonesia, identified that a high number of customers place major importance on the security of their banking relationships. The customers were more likely to choose a bank based on their knowledge of the employees or recommendation from friends. They perceived banks to be very similar regarding products, and placed little value on the product dimension. The final analysis showed that many customers selected their bank based on the personal relationships with employees.

3.2.5 Relationship banking versus transactional banking

Grönroos (1997) argued that customers operate either on the basis of relational or transactional intent. Banks have, however, historically been organised to focus on transactions rather than relationships, though relationship banking and transactional banking are not mutually exclusive (Cheese, 1994). Consumers that operate on a transactional mode are rarely open to relational activities and they are mainly interested in considerations such as convenience and price. Consumers operating in a relational mode are open to relational invitations and their priorities revolve around trust, confidence benefits, social benefits, special treatment benefits, accessibility, individuality, recognition, service, and preference (Gwinner et al, 1998; Cram, 2001).

To understand the origin of transactional and relational banking, it is important to understand the components of banker-customer interactions (Howcroft et al, 2003). Banker-customer interactions consist of content interaction and the interaction process. Content interaction consists of information, economic and social exchange, where both transactional and relational banking can be relevant depending on the nature of interaction. The interaction process consists of frequency and duration of the transaction, where high frequency interactions typically have short duration and vice versa. The interaction process can also focus on the degree of complexity and divergence of interactions.

In understanding banker-customer interactions, it is also important to consider the needs of customers. Their needs can be divided into basic needs, high level needs and specialist services. The complexity of the interaction moves along the line from basic to specialist, which also differentiates from a basic transactional activity to a level of close personal relationship with the relationship banker.

If the relationship between bank and customer needs to be commercially meaningful it must comprise of a series of transactions, where each transaction has a relationship element contributing to the overall customer relationship. As the customer relationship

develops, the value tends to increase as the transactions increase through extended products and account balances. Satisfied customers become advocates and through their referrals to family and friends add value to the relationship. Cram (2001) indicates that transactional activities could promote customer satisfaction, whilst not promoting customer loyalty.

Transaction marketing forms an integral part of relationship marketing. Marketers must consistently deliver high-quality products, good service and fair prices. The focus is however no longer on maximising the profit of individual transactions, but rather maximising profitability on a relationship basis. The operating assumption is, that the building of good long-term relationships will lead to profitable transactions (Kotler et al, 1998)

3.2.6 The value of relationship banking

By building a meaningful relationship with customers, a bank can increase market share and improve its bottom line by reducing costs and increasing revenues (Fournier et al, 1998). Companies should endeavour to grow their customer base faster than the relationship cost base (Cap Gemini Ernst & Young, 2005). The value of the relationship grows over time through extended product and service use, cross-selling and word-of-mouth referrals. The lifetime of a customer relationship is linked to the retention rate, and as the retention rate increases, the customer life increases. Improving the retention rate from 85 percent to 87 percent increases the customer life from six-and-a-half to seven-and-a-half years (Cheese, 1994). The cost of winning a new customer can be up to five times more than keeping an existing one, which reduces the return on investment and lengthens the payback period (Cram, 2001). This again underlies the importance of customer retention through relationship banking. It provides unparalleled opportunities in profit terms by ensuring that the value of the relationship is maximised.

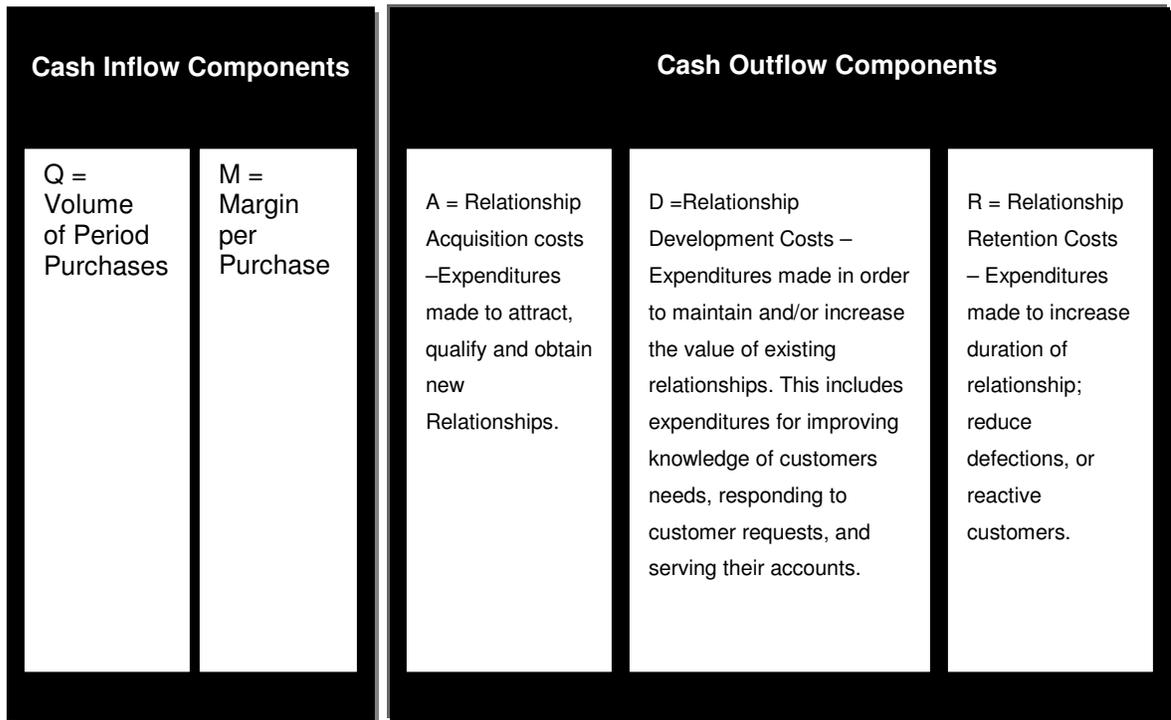
A number of potential sources of contribution arise from the customer relationship over its lifetime (Cheese, 1994; Grönroos, 1997):

- **New relationships** – profit will emerge in due course from the initial product usage, and continue over a number of years. Economies-of-scale also develop in a bank as new relationships are added to the existing base.
- **Changing relationships** – over time it is expected that existing customers will increase their activity and balances.
- **Cross-sales** – as the relationship develops, the possibility for cross-sales and additional product use develops.
- **Reduced operational costs** – over a period of time it is expected that additional profit will arise as the operational costs reduce. An example is the smooth running and maintenance of a relationship, which will require less attention.
- **Word-of-mouth referrals** – satisfied long-term customers referring friends and family to a certain company based on the good experience and value received over time.
- **Price premiums** – although the banking industry is very competitive, a soundly based relationship will lead to the pricing consideration becoming less important.

Converting and quantifying the value of the customer relationship is critical in evaluating the success of creating customer relationships, with customer loyalty as the main goal.

Figure 3.1 indicates the principle of quantifying the value of the customer relationship (Kennedy, 2004).

Figure 3.1 Quantifying the value of relationship assets



t = Duration – Duration of the relationship or number of periods over which purchases are made. d = Discount Rate.

$$\text{Value of Relationships Assets} = \text{Relationship Lifetime Value} = \sum_{t=1}^n Q_t M_t d^t - \sum_{t=1}^n (D_t + R_t) d^t - A_1$$

Source: Kennedy (2004: 39)

The relationship lifetime value (RLV) or customer lifetime value (CLV) is based on the value that is generated by the relationship assets (Johnson, 2002; Kennedy, 2004). The value can be quantified from the cash inflows, based on duration and frequency, and the cash outflows, which is based on the cost of establishing a relationship and also maintaining or retaining the relationship. CLV is based on calculating the present

value of future cash flows (Ambler, 2003). The benefits for adapting such a model are based on utilising the feedback and efficiently allocating sales and marketing resources, which will enable the bank to exert leverage and cultivate the relationship assets more effectively. Another use is to determine which customers must be retained or type of customers that must be gained, and which customers the bank should get rid off. Adapting such a model reveals that relationship lifetime value or customer lifetime value is more than just a metric, but a way of thinking and doing business. It encourages management to focus on the long term, and reconsider traditional assumptions about how to measure performance and make decisions. A mistake by many companies in calculating the CLV is that they base their calculations on their current customer base rather than what it might be.

3.3 Customer loyalty

3.3.1 Defining customer loyalty

“Customer loyalty means that customers are so delighted with a company’s product or service that they become enthusiastic word-of-mouth advertisers” (Bothe, 1996: 31).

Loyalty can also be defined as “the willingness of someone – a customer, an employee, a friend – to make an investment or personal sacrifice in order to strengthen a relationship” (Reichheld, 2003: 48). Loyalty is much more than repeat purchases, as inertia, circumstances, or exit barriers erected by the bank may trap customers who buy again and again.

Loyalty has a far wider connotation than just customer behaviour. Rayner (1996) describes two dimensions of loyalty: one referring to the emotional side, for example faithfulness and allegiance, and the other based on the behavioural side, such as being constant, for example, frequently occurring behaviour. He defines customer

loyalty as “the commitment that a customer has to a particular supplier” (Rayner, 1996: 126).

3.3.2 Introduction to customer loyalty

Loyalty as a keyword on a web search provides over a 100,000 loyalty related pages. Reichheld (2001) refers to opportunistic marketers reducing loyalty to a potpourri of marketing gimmicks, which have been designed to manipulate customer behaviour with possible cheap bribes. He addresses the issue that companies cannot replace good service and value received by free awards or bonus points for some or other loyalty programme. He, however, does not discard proper loyalty marketing techniques, but deems it critical that the overall fundamentals of customer value must be right, and that loyalty depends on upholding a set of principles and practices worthy of trust and commitment. Doyle (2000) emphasises that customer loyalty is the most important determinant of profit margins and long-term growth. Loyalty is about earning customers’ enthusiastic commitment to a relationship that will improve the customers’ lives over the long-term (Iniesta & Sánchez, 2002).

According to statistics, half of the United States’ companies lose their customers within five years (Reichheld, 1996). Based on this information it is possible to say that future business relationships could be based on opportunistic transactions between strangers. It is wrong if companies are only interested in creating long-term growth, profits or shareholders’ value (Ambler, 2003).

Rayner (1996) feels that loyalty can be applied as a long-term strategy in order to build long-term customer relationships. Loyalty marketing is based on the recognition that it is cheaper to generate more business from existing relationships, than to either create new, or win new customers. He found that loyal customers tend to purchase more frequently and also spend more. This results in a higher return on investment on those customers who stay longer.

Research by Howcroft et al (2003) found that customers are more behaviourally loyal rather than attitudinally loyal in respect of their relation to transactional activities with financial service providers. Many participants indicated that they only remain “loyal” because of the “hassle factor”, “laziness” and “lack of differentiation”. These responses suggest that there are no real feelings of belonging or support for banks. Banks are seen as nothing more than utilities and that no real added value is provided through transactions. It transpired that many customers expect nothing less than fast, reliable and accurate transactions or service. However, the participants acknowledged that loyalty is personalised and based on a long-term relationship with an individual, when relational services and products are needed. This also confirms the importance of consistency of personnel. It was further found that the provision of sound advice and good service over a sustained period of time resulted in increased loyalty, and that the metamorphosis to loyalty towards the principal provider or financial institution is a gradual process.

3.3.3 Opposing views of customer loyalty

Opposing views however, exist regarding the existence of customer loyalty (Rayner, 1996). As a rule, society dismisses the relevance of loyalty in business, and maintains that it should only have a place in life’s finer institutions namely family, church, school, and community. Experts claim that loyalty is dead and that some statistics confirm this view. Ambler (2003) states that none of the pro-loyalty supporters has proven their views empirically. East, Lomax & Freeman (2002) for example, challenged the increased customer gain from referrals, and found that it was only relevant in some industries. It was, however, found to be relevant in the banking or financial industry, which is the base industry of this study.

Reinartz & Kumar (2002) felt that the loyalty supporter theories are mostly “bunkum”. Their research found that a much weaker relationship exists between loyalty and profitability, than what the supporters of loyalty programs claim. They found that long-term customers were not necessarily less price sensitive or less expensive to serve,

but accepted that this differs per industry. Evidence from business-to-business relationships actually indicated that these customers expect lower prices based on their loyalty. Some customers also indicated that they resent companies that try to benefit from loyalty. They however agree that certain customers are more valuable than others and that companies need to measure the relationship between loyalty and profitability to focus their marketing strategies on these profitable customers. They also found that long-term customers were not really effective in luring new customers based on measuring their purchasing behaviour and asking them if they spontaneously tell friends and family about positive experiences. However, based on measuring “attitudinal loyalty” or soliciting their own subjective measure of loyalty, the results were intriguing. The research found that the subjective or “attitudinal loyalty” was much higher. This supports the view that loyalty should not just be measured on the basis of purchasing behaviour, but also based on attitudinal surveys or judging them by more than just their actions. Their criticism of the existing loyalty theories were based more on the methods used in determining the loyalty, whilst they confirmed that investments in loyalty are not doomed. Companies must find a balance between managing customer loyalty and profitability simultaneously, and with the assistance of technology, for example CRM systems, this becomes easier.

3.3.4 The evolution of customer loyalty

Bhote (1996) explains the development and evolution of customer loyalty in companies by identifying four stages, as illustrated in Appendix A. Stage 1, called the Innocent Stage, refers to the dark ages of customer consciousness, followed by Stage 2, called the Awakened Stage where companies start recognising the importance of the customer but have no strategy for how to deal with it. In Stage 3, called the Progressive Stage, companies have established infrastructures for customer satisfaction. Finally, in Stage 4, called the World Class Stage, companies have earned customer loyalty. The process includes the following ten customer-related characteristics:

Scope – where companies move from self-centred or inward looking to believing that the main objective is to add value to customers.

Focus – moving from a commodity business, focusing on price and volume, to a quality focus, then to a customer satisfaction focus, and finally to delighting customers and creating customer loyalty in the World Class stage.

Customer segmentation – moving from little or no differentiation between customers, to focusing all resources on serving the core customers.

Management – where management develops from being very bureaucratic and hands-off, to being very much involved, coaching and leading.

Organisation – the organisation structure moves from a vertical silo structure, to a matrix structure and finally a cross-functional structure where the main goal is to serve customers.

Goals – moving from a re-active mode to a state where the company goes beyond its goal of simple customer satisfaction to delighting customers, creating customer enthusiasm and customer excitement.

Customer requirements – from where customer requirements are determined independently by management, without obtaining any input from customers, to using the process of quality process deployment, which basically covers the whole spectrum of determining each important requirement of customers, its priority for customers and benchmarking against competition.

Customer measurements – from companies believing that profit is the only measurement tool necessary, to companies also including the measurement of customer loyalty. Thus, customer measurements refer not only to concentrating on the retention of customers, but also on the longevity of customer relationships.

Analysis of feedback – from doing no follow-up on customer surveys, to customer satisfaction indexes, to finally analysing the reasons for customer defections and trying to win those customers back.

Improvement tools – from using basic improvement tools, to using the latest techniques of business process reengineering to flowchart all business processes affecting the customer.

Commitment plays a central role in the evolution of loyalty (Wetzels, de Ruyter & van Birgelen, 1998). It is one of the most desirable aspects of relationships. The mutual commitment between parties in a business relationship produces significant benefits. Commitment has been viewed, as a “proxy” for loyalty and is critical in the development of long-term relationships.

3.3.5 Types of customer loyalty

Reichheld (1996) points out three general rules of thumb regarding customer loyalty, which are of note to any company:

- Some customers are more loyal than others, no matter with whom they are dealing. These customers are inherently predictable and prefer stable, long-term relationships.
- Certain customers are more profitable than others. They require less service or advice, pay on time, and spend more money.
- Your products and services will be more valuable to some customers than those of your competitors.

It is thus obvious that the more customers a company can draw who fit these groups, the better the chance of retention, loyalty, and the benefits that go along with it. Reichheld (2001) also deems the bonds of loyalty a company develops as the only

true source of sustainable, competitive advantage, thus out-performing competitors. It's becoming ever critical that companies must build stronger relationships with their customers to protect their market share from competitors. These relationships will only be sustained through transparent and trustworthy partnerships, and mutually beneficial relationships (Ferreira, 2004). This advantage will result in substantial economic benefits in the future (Cram, 2001).

Loyalty can be categorised into good loyalty and bad loyalty. Good loyalty in the context of the research could be if a customer is willing to support a financial institution even though a competitor's product or service is at a lower cost. Such a customer places value on the relationship he has with his existing financial institution and the total offering. Bad loyalty could be when a customer continues to support a financial institution for the wrong reasons or to his own detriment, based on sentiment, whilst receiving poor service and little value for money. Reichheld's (2001) theory of loyalty-based management is all about loyalty to a set of principles that will enable a company to serve all its stakeholders into the future. The theory is all about people – customers, employees and investors. Loyalty is about devotion, pride, energy and commitment. Loyalty is not a substitute for profits, but rather a vital component of the strategies that businesses have used to achieve extraordinary growth and profitability.

3.3.6 Measuring customer loyalty and retention

The underlying goal of a company is generally known to be that of a profit generator or wealth creator for shareholders. Reichheld (1996) refers to a new theory – loyalty based management, which sees the main goal of a company as a value creator, with profit as a vital consequence. Loyalty based management goes beyond customer satisfaction, and focuses on customer and employee retention in order to enhance profitability. Profit on its own is an unreliable measurement as a company can raise reported short-term earnings by liquidating human capital, pay cuts or price

increases, whilst these could negatively impact on employee and customer loyalty, and ultimately reduce its duration and worth.

The only true way in which a business can retain customer and employee loyalty is through delivering superior value, which confirms that high loyalty is a certain sign of solid value creation. Although it might seem that loyalty and profits are in conflict, and business is a zero-sum game, this is not true. To explain his theory Reichheld (1996) refers to two types of profits, namely virtuous and destructive profit. Virtuous profit is the result of creating value, sharing it, and building the assets of a business. On the other hand destructive profit exploits assets. The basis of this theory is to differentiate between good profits and bad profits by measuring the loyalty of the most valuable assets in a business: customers, employees and investors – which Reichheld (1996) also calls the forces of loyalty. It was also found that companies with outstanding loyalty also delivered superior value to their customers (and employees), strong cash flows, and achieved solid growth. Loyalty is thus linked to the creation of value as both a cause and an effect. “As an effect, loyalty reliably measures whether or not the company has delivered superior value: Customers either come back for more or they go elsewhere. As a cause, loyalty initiates a series of economic effects that cascade through the business system” (Reichheld, 1996: 19). In research by Bothe (1996) he found a close relationship between customer loyalty and profit, but a weak correlation between customer satisfaction and customer loyalty.

To measure loyalty a company must determine the lifetime value of a customer (Rayner, 1996). Lifetime value is the total return earned (after recruitment cost) over the length of time the customer stays with a company or balancing the long-term commitment against the period spent with the company. Measuring customer loyalty purely on retention rates or customer satisfaction has proven to be unsatisfactory (Reichheld, 2003).

Measuring true customer loyalty can be simplified by asking one simple question, which is to ask your customers if they will refer your company to a friend (Reichheld,

2003; Vinocur, 2004). Recommending a company to a friend is the best sign of customer loyalty and sacrifice. When referring friends a customer goes beyond indicating satisfaction or receiving good economic value, they put their own reputation on the line. This a customer will only risk if they are intensely loyal.

Research found that disloyalty stunts company performance by 25 to 50 percent, and in some instances even more (Reichheld, 1996). On the other hand, companies who focus on finding and retaining good customers, productive employees and supportive investors, result in excellent performance. The research further proved that an increase in customer retention rates of 5 percent increased profits by 25 percent to 95 percent. Research by Bhote (1996) supported these findings, as a 5% reduction in customer defection resulted in increased profits of between 30% and 85%. The business strategy of this theory is called loyalty-based management. Loyalty-based management results in high productivity, solid profits, and growth for companies who embrace it. It is also critical that customers must be seen as annuities and that management should understand the long-term consequences of loyalty.

Companies have realised the value of retaining customers in maturing markets (Kotler et al, 1998; Novo, 2004). Consistent high retention rates build competitive advantage, boost employee morale, increase productivity and growth, and reduce cost of capital. Reichheld (1996) developed a model to explain the economics of customer retention and customer loyalty. It is based on the lifetime profits a business can earn from its customers. The longer a company can keep a customer, the greater the lifetime revenue (Mittal & Lassar, 1998). This generic model captures the most important economic effects of customer loyalty. Figure 3.2 provides an example of the generic model. It is also referred to as the “component parts” of loyalty, with each component briefly explained as follows:

Acquisition cost. This covers the upfront cost or investment each business needs to make in order to acquire a new customer.

Base-profit. This is the basic profit a business makes from purchases by customers, which are unaffected by time, loyalty, efficiency, or any other consideration.

Revenue growth. This basically refers to the norm that in holding on to customers they tend to accelerate their spending over a period of time.

Operating costs or cost savings. Customers become very efficient buyers as they start to know the business and its products or services. They do not waste time making a decision and do not need consulting on product or services.

Figure 3.2 Why loyal customers are more profitable



Source: Reichheld (1996: 39)

Referrals. Satisfied customers recommend the business to others. They are an important source of new customers and a much cheaper marketing intervention. This is referred to as word of mouth.

Price premium. This underlies the fact that old customers effectively pay higher prices than new ones and are not drawn by promotions and specials.

3.3.7 Customer defection and disloyalty

Few companies understand the financial impact of losing customers. The problem is that customer retention is not measured. One of the major factors for company failure is customer defection (Reichheld, 1996; Bothe, 1996; Reichheld, 2001). Defection is a clear sign that the value stream from the company to the customer is deteriorating. Secondly, it has a negative impact on cash flow and profits.

Disloyalty has been identified in companies where:

- Companies don't measure defection rates and have no idea that they are losing customers at such rates.
- Senior management not realising the importance of customer loyalty.
- Loyalty requires discipline. It takes years of hard work and commitment to create a relationship, yet a single instance of betrayal can destroy it.
- Pricing strategies normally reward the disloyal customers.
- The problem of defections or disloyalty was delegated to the marketing department and not to all functional divisions, including senior management.
- Communication is not transparent.

A cause-and-effect relationship exists between employee loyalty and customer loyalty. Evidence was presented which emphasised that where the employees are disloyal it had negative consequences on customer loyalty and ultimately on company performance.

Choosing the wrong customers or disloyal customers can destroy value for the rest of the business. This is found widely in banks when growth drives are attempted, but post mortems show that 20%-25% of the new customers were actually adverse selections.

3.3.8 Advantages of customer loyalty

It was found that high retention leads to major competitive advantages, increased employee morale, boosted productivity, and growth, and reduces cost of capital. The following are economic effects caused by customer loyalty (Christopher et al, 1991; Reichheld, 1996; Duffy, 1998; Reichheld 2001):

- Once customers become loyal to the company, repeat sales and referrals will increase, which will lead to growth in revenues and market share. Existing customers, who are willing to give enthusiastic references and word of mouth referrals, create free advertising. Customers become advocates.
- Through the delivery of superior value to customers, employees' loyalty increases as it gives them pride and satisfaction in their work. Companies will attract and retain the best employees if they are able to sustain their growth. A further benefit is the strong relationship of long-term employees and long-term customers, which also results in increased loyalty.
- Companies achieve a cost advantage as increased efficiencies arise when they deal with loyal customers. This also increases the company's competitiveness in the market.

- Customers who have learnt the company's procedures and acquainted themselves with its full product line invariably receive greater value from the relationship. This also results in these customers becoming less price-sensitive and willing to pay a premium, thus resulting in a substantial entry barrier to competitors. Customers also buy more.
- Companies should realise that some customers are inherently more loyal than others. They need to segment their market correctly and to target those offerings and value-add packages of those segments that deserve it.
- Customers stay customers longer. If a problem arises along the way and the customer feels that the company cares, they will call and complain. They are willing to rather fix the problem than to quietly defect.
- Loyalty provides the time to respond to competitive moves – it gives breathing room. For example, if a competitor develops a superior product, a loyal customer will allow the company the time needed to respond by matching or neutralising.

3.3.9 Customer loyalty and customer service

In modern companies where the customer-orientation philosophy and principles of continuous improvement are found, customer satisfaction represents one of the most important issues (Grigoroudis et al, 2002). This is particularly relevant in the banking sector, where a highly competitive market exists. The mistake that many companies make is to confuse loyal customers with satisfied customers (Novo, 2004). Just because customers indicate high levels of satisfaction does not mean that they are or will be loyal. Satisfied customers will stay until a better alternative is offered, thus no emotional connection or relationship is involved. Customer loyalty is however an emotional state of mind where a company has embedded themselves in the "heart and mind" of the customer.

As stated, satisfied customers will continue doing business until something better comes along, for example: a better location, lower price and better variety. These customers do not focus on the relationship, there is no formal personal interaction and they view the business as impersonal. On the other hand, loyal customers will tend to forgive and understand minor problems, they are not price sensitive, will help to “sell” the business by word of mouth and will not jump at the next “pretty face”.

3.3.10 Price and loyalty

Many companies and management teams still believe that loyalty does not exist in business and that customers are driven by price. However, more and more customers are driven by value received and not price (Bothe, 1996). Price cannot create any loyalty, as those customers who purely support suppliers based on price, will not blink to support another supplier if their price is lower. Price is rarely the only factor in the decision making process for a customer, but usually one of many factors to consider (Cheese, 1994). If a strong relationship exists and the customer is loyal, less emphasis is placed on price, but on the value of non-price considerations. Relationship pricing refers to a pricing system that is based on long-term pricing rather than pricing based on short-term considerations (Ambler, 2003).

3.3.11 Customer loyalty and brand loyalty

Reichheld (1996) compares personal loyalty and brand loyalty, and deems brand loyalty sub-standard by comparison. Brand loyalty is a major marketing tool. A customer can get to know a brand, but a brand can never learn to know a customer. It is therefore logical that a customer becomes more loyal to a person or employee with whom he or she has a closer relationship. The research also found that a customer is more willing to give an employee a second chance to correct a problem, which again positively impacts on retention. Bothe (1996) also believes that customer loyalty leads to lasting brand loyalty. Duffy (1998) claims that a customer cannot experience the brand without experiencing the company’s loyalty strategy.

3.3.12 Summary of factors that lead to customer loyalty

Certain factors and interventions can lead to increased customer loyalty. The following are some of the more important factors and interventions found in the research:

- Top management must be committed to customer loyalty and be involved in the interaction with the core customer base. The company structure must be based on a customer-orientated culture (Bhote, 1996). Top management must lead the way.
- Establish what the customers require by asking the customer first. When determining customer needs it is critical that management starts its research with its customer base.
- Customer loyalty needs to be measured. Companies need to quantify the impact of customer loyalty on profitability. Measurements of customer defection and customer retention form part of the overall analysis. Feedback analysis is critical.
- Customer satisfaction is the bare minimum for creating customer loyalty (Mittal & Lassar, 1998). However, satisfied customers are not necessarily loyal (Reichheld, 2001). Dissatisfied customers are almost always prone to defect, while even some satisfied customers would switch. The challenge remains to determine what drives loyalty beyond satisfaction.
- Customers want to be entertained, educated and inspired, whilst not being managed (Ellis, 2004).
- Offering long-term added value to customers, differentiates a bank from its competition and contributes to the aim of creating customer loyalty (Rayner, 1996).

3.4 Conclusion: Integrating relationship banking and customer loyalty

Relationship banking can replace or substitute relationship marketing as a component in the relationship-marketing ladder of customer loyalty (Christopher et al, 1991). Initially, the focus is on catching new customers at the prospect stage, then, once they have become customers, to move them up the ladder to become a regularly purchasing client. The customer will then become a supporter and can hopefully be converted to become an active and vocal advocate, as these customers are also the loyal customers. In the last stage the emphasis is on developing and enhancing relationships or keeping the customers. Customers who become active and vocal advocates ensure a valuable referral source, and need to be incorporated into the company's advertising plans.

Loyalty marketing has been called by different terms according to Duffy (1998) – relationship marketing, frequency marketing, one-to-one marketing, and customer-centric marketing. Most companies want to build deeper relationships with their customers and eventually create a loyal customer base. He claims that loyalty marketing is a lot more than just loyalty programmes, but that it is a business strategy and a state of mind. Loyalty strategies seek to build stronger and more durable customer relationships, boost loyalty, and maximise customer share. A durable relationship will encourage a customer to rather do something about a problem than quietly defecting from the bank.

Customers who share the values of a bank and trust it, will recognise the mutual benefits coming from extended product use within a relationship (Cheese, 1994; Howcroft et al, 2003). Customers place major emphasis on relationships, trust and loyalty when acquiring inherently risky and complex products and services. Retention remains critical to any company (Marcus, 1998). A small increase in retention can dramatically increase company profits. Retention-oriented tactics focus on strengthening customer relationships. Companies need to implement loyalty strategies to build, cultivate, and maintain strong relationships with their best

customers (Duffy, 1998). Customer relationships and relationship marketing are key elements of relationship banking. Bankers must be wary of the greedy pursuit of short-term gains and customer satisfaction, but should focus instead on building loyal, profitable relationships with their customers.

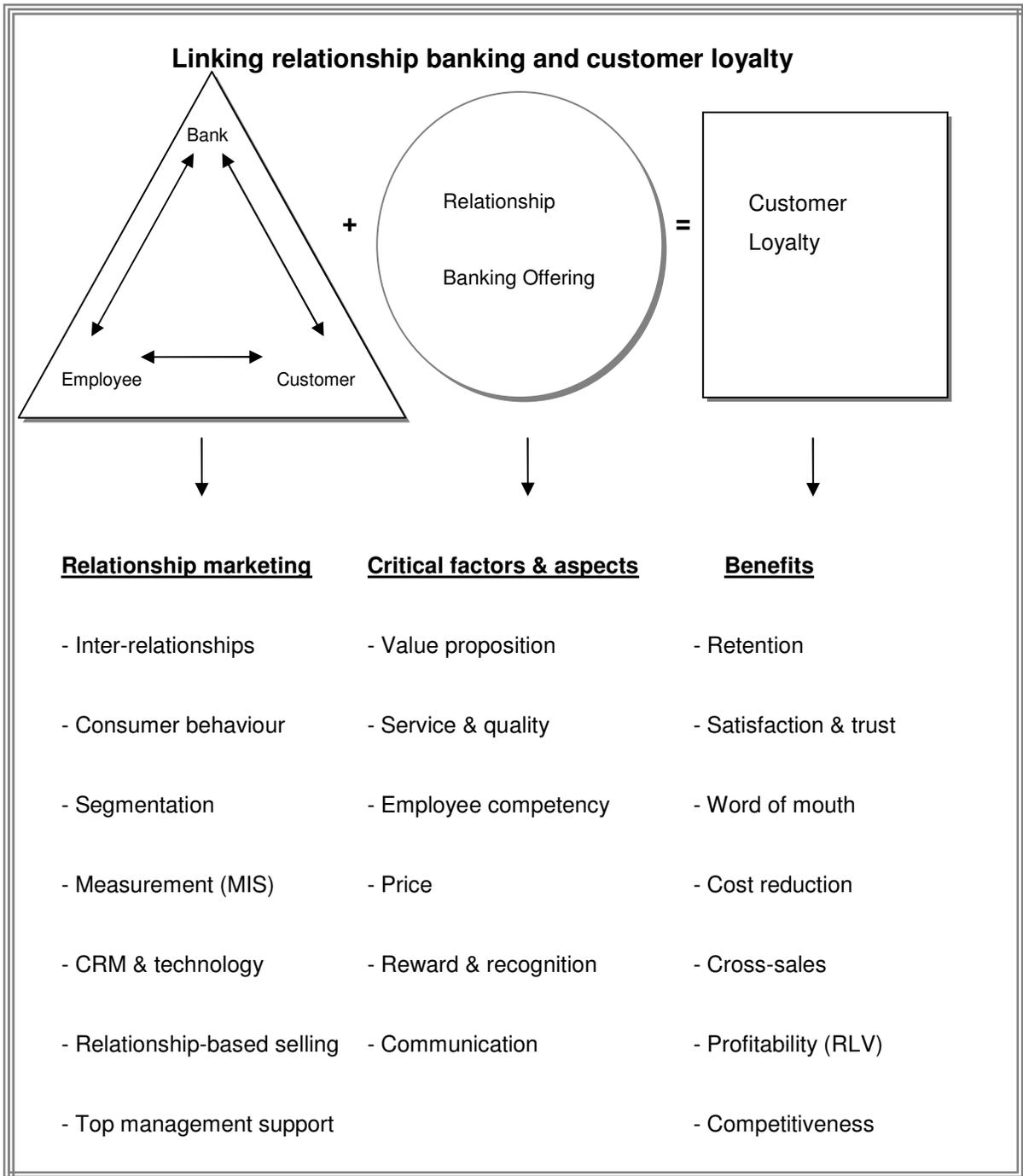
For relationship banking to be successful, senior management must commit its support, products that satisfy the market needs must be available and the right employees with the right skills must be employed (Ferreira, 2004). It is essential that the correct segmentation of customers be done and that this should be value-based. Banks must recognise that a relationship is a two-way connection, where mutual benefit is imperative. If a bank expects customers to be loyal, they must return the “favour”.

A result of relationship banking is increased customer loyalty, which again leads to customer retention, which increases the competitive position of an organisation. The ultimate goal is to increase customer value and long-term customer profitability. “Profits soar in response to loyalty” (Ferreira, 2004: 6). Most successful companies are those that care about and nurture loyalty from customers, employees, and investors (Reichheld, 1996).

Building strong customer relationships is not just the role of the marketing department and sales force, but is also the responsibility of the total company, which includes all its functional areas. Building strong relationships at all levels will result in high customer loyalty (Kotler et al, 1998).

In Figure 3.3 the researcher presents a conceptual model that describes the key variables of the phenomenon being researched and how the variables link to one another. The main objective of the study is to determine the effect of relationship banking on customer loyalty.

Figure 3.3 Linking relationship banking and customer loyalty



The first important aspect is to understand the concept of relationship marketing. Relationship marketing involves the dimensions of inter-relationships, consumer

behaviour, segmentation, measurement, CRM, relationship-based selling and top management support. The inter-relationship revolves around the bank, employee and customer interactions. It is critical that the bank understand all aspects of consumer behaviour and their buying behaviours. Next banks need to segment their market according to various demographics and value propositions, considering both bank and customer requirements. A supporting activity for the segmentation process is measurement of customer profitability as value propositions must be financially feasible for the bank. CRM is part and parcel of relationship marketing and must be appropriately applied in the distribution network of banks. Technology, for example CRM systems, must be used as a support function for the parties involved in the inter-relationship triangle. The principles of relationship-based selling are core in the relationship banking offering that must be implemented. Lastly the support of top management is critical for any implementation of strategy.

The second aspect of the conceptual model involves the relationship banking offering itself. The critical factors include the value proposition, service and quality, employee competency (relationship banker), price, reward and recognition, and communication. Relationship marketing and the relationship banking offering are integrated and relationship banking develops and flows from relationship marketing. The value proposition encapsulates the relationship offering or value-add to the customer in totality. It covers all aspects of one-to-one contact, reliable performance, trust, accessibility, education, individuality, service, quality, assistance, communication, recognition and preferential treatment. The relationship banker plays a critical role in the relationship banking offering as the relationship develops between customer and banker. The relationship banker must be competent, experienced, knowledgeable, qualified, customer-orientated, service-orientated and motivated.

The last part of the conceptual model concludes the principle of customer loyalty and its benefits. One of the main objectives of the relationship banking offering is to create a higher level of customer loyalty and develop this loyalty over time. The benefits include retention of customers and staff, customer satisfaction, trust, word of mouth

referrals and growth, cost reduction, cross-sales, profitability (relationship lifetime value) and enhancement of the bank's competitive advantage.

The primary research (survey) will shed light on the impact and effect that relationship banking has on customer loyalty, if at all. If relationship banking is found to positively influence customer loyalty, banks can satisfy themselves with the benefits of customer loyalty. If however, relationship banking does not impact on customer loyalty banks must review the purpose and objectives of the relationship banking offering.

CHAPTER 4: PROBLEM STATEMENT AND HYPOTHESIS

4.1 Introduction

The previous chapters included the orientation of the research, theoretical foundation of the study and the literature review. These chapters provided the basis for the purpose of the study and the field of research. The focus has been on the effect of relationship banking on customer loyalty.

In this chapter the research problem and sub problems are formulated. The research is driven by one main hypothesis, which will be tested.

A problem statement is a clear and precise statement of the question or issue to be investigated with the aim of finding an answer (Van der Wal, 2004). The problem definition is an extremely difficult, but important process. The success of the research and its relevance depends heavily on this portion of the study process (Cooper & Schindler, 2003). The problem is defined clearly and it supports the remaining portion of the research.

4.2 Problem statement

The competition between retail banks in South Africa has become fierce and all the banks have realised that they need to protect their existing customer base. Customer retention has become a business imperative, and banks realise that customer lifetime value identifies the real value of a long-term relationship. They have also realised that major financial benefits exist in mining the existing customer base through cross-selling of products and services. As part of their relationship marketing strategies commercial banks have started to extend the relationship banking offering, previously only offered to corporate customers, to their high value business customers in the retail banking environment.

One of the aims of the relationship banking strategy is to establish a high level of customer loyalty. Opposing views exist however, on the existence and value of customer loyalty in the business environment. Some believe that customer loyalty could lead to increased profits and customer retention, whilst others believe that customers are only interested in the transactional value, price, or service received. The relationship banking offering is on the other hand, a very expensive sales and service approach, and it is critical that it achieves the purpose it was set out to do – to enhance customer loyalty – and also to justify the financial outlay or cost.

Management thus needs to know and understand the benefits of following a relationship banking strategy. They must also determine if customer loyalty exists in their business environment and if relationship banking enhances it. Banks need to ensure that they own the relationship with their customers and use it as a competitive advantage over other banks.

The problem statement:

To what extent has relationship banking impacted customer loyalty of business banking customers in retail banks in South Africa?

4.2.1 Sub-problems

Sub-problem 1

What is the difference in level of customer loyalty between business customers in retail banks who receive a relationship banking offering and customers who don't?

The existence of customer loyalty has been debated by researchers at length. Opposing views on the existence of customer loyalty have been raised in the literature review. However, if customer loyalty exists and relationship banking impacts the level of customer loyalty it can be exploited by banks. If retail banks can

perfect their relationship-banking offering, which aims to enhance customer loyalty, they can capitalise on the proposed benefits over the long-term.

Sub-problem 2

Which factors or critical aspects of relationship banking lead to an increase in customer loyalty?

Sub-problem 3

What are the benefits of relationship banking and customer loyalty?

If banks have a clear indication of which factors and aspects impact upon customer loyalty, they will be able to manage them better. Banks tend to think they know what leads to increased customer loyalty. If customers get the opportunity to express what they deem important to increase their loyalty, banks can use this information selectively in their relationship banking strategies.

4.2.2 Hypothesis

A good hypothesis should be adequate for its purpose; it should be testable and better than its rivals (Cooper & Schindler, 2003). A hypothesis test can be conducted to investigate statistically whether a claim is justified. The null hypothesis is used for testing and states that no difference exists between the two groups that form part of this study (business customers with a relationship banker or strong banking relationship, and those business customers with no relationship banker or strong relationship with their bank). The null hypothesis states that there is no statistical significant difference between two groups or comparables. The alternative hypothesis suggests that there is a difference between the attitude and perceptions of the two groups, which supports that a statistically significant difference exists. If the null hypothesis is rejected a statistically significant difference exists and the alternative hypothesis would be accepted. However, if the null hypothesis is not rejected, the

alternative hypothesis is rejected and the hypothesis will be proved false. If the hypothesis is proved false it could indicate that relationship banking is limited in its application and is constrained to creating customer loyalty and adding value. There is only one central hypothesis to this study.

Null hypothesis

Ho: There is no difference in customer loyalty between business customers who receive a relationship banking offering or have a relationship banker, and business customers who do not receive a relationship banking offering or have a relationship banker.

Alternative hypothesis

Ha: Business customers who receive a relationship banking offering or have a relationship banker are more loyal to their bank than those business customers who don't receive a relationship banking offering or don't have a relationship banker.

4.2.2.1 Rationale

The relationship banking offering, as part of a bank's relationship marketing strategy, aims to strengthen the customer relationship, increase customer satisfaction, support customer retention and increase customer loyalty. Loyal customers tend to buy more, share their market knowledge with their bankers, refer new customers, are less price-sensitive and also become cheaper to serve over time (Christopher et al, 1991; Bothe, 1996; Reichheld, 1996; Duffy, 1998; Reichheld, 2001; Iniesta & Sánchez, 2002; Ferreira, 2004). If this is the case the management of retail banks should place a much higher value on the phenomenon of customer loyalty. They should also focus their attention on the appropriate application of relationship banking as a value-creating strategy, where feasible.

Opposing views however exist on the existence of customer loyalty and its impact (Rayner, 1996; East, Lomax & Freeman, 2002; Reinartz & Kumar 2002; Ambler, 2003). The hypothesis will shed light on the existence (or not), of customer loyalty as there should be no difference between the loyalties of the two groups of the sample if customer loyalty does not exist or have an impact.

4.3 Conclusion

In this chapter the problem statement and hypothesis were explained. Chapter 5 will provide the research design and analysis.

CHAPTER 5: RESEARCH DESIGN AND ANALYSIS

5.1 Introduction

In the preceding chapters a broad study orientation is given (Chapter 1) as well as an overview of the theoretical foundation of the study, which covers relationship marketing, consumer behaviour, customer segmentation and CRM (Chapter 2). In Chapter 3 a literature review is done on the views on relationship banking and customer loyalty in recent years. Chapter 4 identifies the research problems and hypothesis.

In this chapter a full exposition of the study is given. The research methodology and design impact directly on the quality of the research findings (Cooper & Schindler, 2003). The chapter provides a full description of the research plan, structure and execution.

The research is conducted in the form of a survey. The reasoning approach is of an inductive nature and the data are collected by means of electronic mail questionnaires.

Section 5.2 discusses the sampling process and identifies the sample used in the primary research.

Sections 5.3 and 5.4 describe the method of data collection and include a discussion of the measurement instrument. Feedback is also given on the success of the sampling process.

Sections 5.5 and 5.6 cover the limitations identified and assumptions made, which are relevant and of importance to the study.

Section 5.7 covers the data analysis.

5.2 Sample design

The target population consists of all the business customers and business account holders of all the South African retail banks. Business account holders will include any business, small-and-medium-enterprise and commercial account holders.

The sample is restricted to eighty business customers, who receive a relationship-banking offering and have a personal relationship banker dealing with their accounts. Eighty business customers who do not receive a relationship-banking offering and do not have a personal relationship banker dealing with their accounts will also be approached. The sampling frame is drawn from one of the four major banks in South Africa. The sample of eighty business customers, who receive a relationship-banking offering, is drawn from a specific business centre unit in Johannesburg, which has 900 business customers. The eighty non-relationship banking customers are drawn from various branches in the same geographic area. The sample of business customers is similar in respect of annual turnover band, which is in the R3 million to R50 million category. This turnover band selection ensures that the sample elements will be similar. The sample thus excludes small business customers (turnover below R3 000 000) as well as large corporate and commercial customers (turnover above R50 000 000).

The most appropriate type of sampling design is deemed to be a non-probability convenience sample. Although limitations exist for this type of sampling, it should be the most appropriate method due to the total population not being available, and time and cost constraints. Data on the target population are not readily available due to the magnitude of the target population as well as the confidentiality aspects of customer databases of banks. Due to the competitive nature and confidentiality responsibilities banks will not, and are not allowed to provide data on their customers. The proposed sample type will however, be useful for the purpose of the study.

5.3 Method of data collection

5.3.1 Secondary data collection

The secondary data used in the study are mostly data outside of any specific company – Internet, libraries, universities, trade associations and private research organisations. They include books, academic journals, practice-oriented journals, conference proceedings, general business publications, trade publications, websites, electronic libraries, theses, research reports, and government publications.

5.3.2 Primary data collection

The primary data are collected using a questionnaire by means of an electronic mail survey. The main driver for this method is the cost aspect, as it is one of the most affordable methods for research. Accessibility is another benefit of this type of method as the sample elements normally have electronic mail facilities. Convenience is also an important factor as the sample elements can undertake the survey in their own time, when convenient. Disadvantages however include: low response rates; no interviewer intervention; clarification cannot be sought; accurate mailing lists are needed; and the questionnaire cannot be long or complicated.

5.3.3 Feedback on primary data collection

The questionnaires were mailed to the sample population in August 2005. Responses were received from the end of August up to mid-September 2005. A total of 160 questionnaires were mailed of which 80 were to business customers who do have a relationship banker and 80 to business customers who don't have a relationship banker. Feedback was initially slow and the researcher had to follow up responses through telephone calls or by re-sending the questionnaires. Of these 33 business customers with a relationship banker and 18 without a relationship banker completed and returned the questionnaire. Responses were low in relation to the sample size

but common for electronic mail survey methods (Cooper & Schindler, 2003). Questionnaires were all completed by either the owner or senior management of the businesses. This signifies the importance the questionnaire received from the customers.

The manner in which the data were collected will support the test of the hypothesis and subsequent conclusions.

5.4 Measuring instrument

The research instrument that was used is the Loyalty Acid Test Survey developed by Reichheld (2001). Reichheld refers to it as the acid test to measure customer loyalty and the building of lasting relationships. It is a relationship report card specifically designed to assist companies in evaluating and strengthening key relationships. Blanket authority has been given by Reichheld for companies and researches to use the instrument, without any additional approvals required. Customers are asked to grade their relationship against the dimensions that drive loyalty, which include satisfaction, trust and commitment. The questionnaire mainly focuses on how well the customers understand the bank's core principles, their consistency with the rules of loyalty, grading the bank's efforts in putting these principles into practice, and finally asking what must be done to be more worthy of their loyalty.

The first four questions measure the attitude of the respondents by rating them on the Likert Scale between 0 and 10 for their perception of certain loyalty aspects towards their bank. A rating of 0 indicates a very negative attitude (not at all likely or very dissatisfied) and a rating of 10 indicates a very positive attitude (extremely likely or very satisfied). Similarly questions five to seventeen measure the respondents' attitudes towards their bank with regard to specific loyalty related statements. A rating of 0 indicates a very negative attitude (strongly disagree) and a rating of 10 a very positive attitude (strongly agree). Question 18 provides descriptive information on the period that the customer has been banking with their current bank. This data provide

insight into aspects related to loyalty and period of relationship. The last question (question 19) provides the respondent with the opportunity to give a qualitative response based on proposed actions which banks can do to increase loyalty. The questionnaire is enclosed under Appendix B.

Reichheld (2001) developed the measurement tool for measuring customer loyalty for companies that are mainly situated in the United States of America (Bain & Company, 2005). The validity and reliability aspects have been addressed and justified by Reichheld's previous research on customer loyalty. The tool is further accredited through the management and support received from the reputable research company Satmetrix Systems, Inc in the United States. The researcher therefore is satisfied with the validity and reliability of the measurement tool.

5.5 Limitations

Certain limitations exist, which should caution against generalisation of the findings:

- The research is limited in that it is confined to a single typology, namely retail banking industry.
- No formal previous studies of this exact nature have been found in the literature review to date.
- The survey is a once-off event (not longitudinal) and cannot predict changes in customer loyalty due to changes in product/service quality, customer expectations, or competitors' advances.
- The method of primary data collection is an electronic mail questionnaire. The response rate for this research method is often low and the respondents may not be representative (Perreault & McCarthy, 2002). The method is however in line with time, budgeting and logistical constraints.

- Sampling bias is present. The research is based mainly on a restricted sample of one of the main retail banks in South Africa. The sample is drawn from a non-probability convenience sample and does not fully represent the population at large. No comparisons or inter bank analyses are made. Comparison of different banks or their customers is however not the purpose of the research.

5.6 Assumptions

The assumption is made that little or no difference should exist between customers of different retail banks on the views of relationship banking and customer loyalty (universal). The research sample represents customers of only one of the four major retail banks in South Africa, and the assumption is that the views and perceptions of customers should be similar throughout the industry.

5.7 Data analysis

5.7.1 Quantitative analysis

The responses to questionnaires were grouped into two separate groups and evaluated together to analyse the content of individual responses and to extract trends. The two groups represented, included business customers with a personal relationship with their banker through a personal banker, and secondly business customers without a personal relationship with their banker or no personal banker. The two groups were compared to establish the significance between them in respect of level of relationship and ultimately loyalty. The comparison of the loyalty aspects supports the main hypothesis of this study.

A standard statistical tool was used to process the data and obtain preliminary results. Nonparametric tests are used to test hypotheses with ordinal data where there are independent groups (Cooper & Schindler, 2003). The one-tailed test (t-test)

was used to test the hypothesis. The object of the statistical tool was to determine if a statistically significant difference exists between the two groups. The test of significance of the data will be an indication that there is a statistically significant difference or not between the two related sets of data. The presentation of statistical results in appropriate graphic and tabular formats was done to support interpretations. The interpretation of the statistical results was undertaken and the results were translated into rich descriptors for drawing conclusions. Care was taken in the analysis and evaluation of the quantitative data to ensure accuracy.

5.7.2 Qualitative analysis

From the literature review the researcher was able to identify and select a number of themes which are believed to be relevant in relationship banking and customer loyalty. The themes are drawn from the literature review and integrated into the quantitative data to support the findings of the quantitative analysis. The questionnaire included one qualitative question, which will be used to support the findings from the quantitative data and literature review. The question allows the respondents the opportunity to give one recommendation that could improve their loyalty. General themes will be extracted and added to the findings for the discussion.

5.8 Conclusion

The feedback received from the questionnaires is used to meet the objectives of the study as listed in Section 1.2. The t-test will be used to determine if there are any significant differences in the means for the two groups of business customers (those that receive a relationship banking offering and those that do not) in respect of the variable, customer loyalty.

CHAPTER 6: RESULTS

6.1 Introduction

The preceding chapters provided the orientation (Chapter 1) of the study, an overview of the theoretical foundation (Chapter 2), a literature review (Chapter 3) on the views and previous research on relationship banking and customer loyalty, identifying the research problems and hypothesis (Chapter 4) and a full exposition of the study (Chapter 5).

In this chapter the results of the primary research conducted are presented and interpreted (Section 6.2). The presentation of results will be aligned with the objectives of the study:

- To investigate the impact that relationship banking has on the loyalty of business banking customers in retail banks in South Africa.
- To identify the critical factors of relationship banking that can influence customer loyalty.
- To identify the benefits of relationship banking and customer loyalty.

Section 6.3 discusses the results of the hypothesis test.

6.2 Presentation of results

A summary of the survey is presented in Table 6.1. A total of 160 questionnaires were mailed to the sample, 80 to business customers who do have a relationship banker (Group 1) and 80 to business customers who don't have a relationship banker (Group 2). In total only 51 surveys were returned, which included 33 business customers with a relationship banker and 18 without a relationship banker. The number of responses received totalled 32% of those distributed, with the best response coming from the customers with a relationship banker (41%). The low response rate is in line with

response trends experienced with the e-mail data collection method (Cooper & Schindler, 2003). The lower response rate (23%) from Group 2 is possibly an indication of the low level of the relationship with their bank. The standard deviation for Group 1 (1.52) was slightly lower (17%) than that of Group 2 (1.83), which reveals that the variability of Group 1 is lower and more consistent.

Table 6.1 Summary of survey responses

Category of respondents	Sample Size	Number of Respondents	Percentage Respondents	Average or Mean	Standard Deviation
Group 1 - Business Customers with a Relationship Banker	80	33	41%	7.65	1.52
Group 2 - Business Customers without a Relationship Banker	80	18	23%	5.07	1.83
Total Business Customers	160	51	32%	6.74	2.07

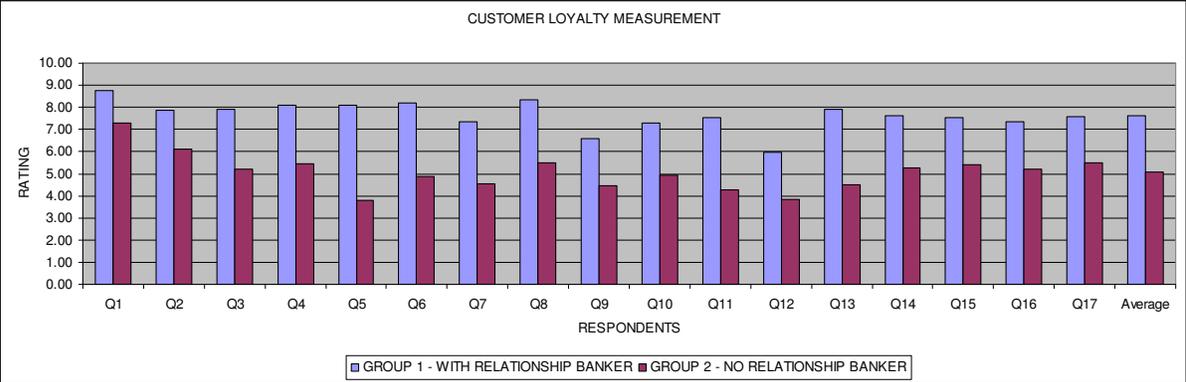
The questions asked the participants to grade or rank their relationship against the dimensions that drive loyalty, namely, satisfaction, trust and commitment. Major emphasis is placed on perception and experience. The questionnaire mainly focuses

on how well the customers understand the bank’s core principles, their consistency with the rules of loyalty, grading the bank’s efforts in putting these principles into practice, and finally asking what must be done to be more worthy of their loyalty.

As discussed in Chapter 5.4, the questions measure the attitude of the respondents by rating them on the Likert Scale between 0 and 10 for their perception on certain loyalty aspects towards their bank. For the first 4 questions a rating of 0 indicates a very negative attitude (not at all likely or very dissatisfied) and a rating of 10 indicates a very positive attitude (extremely likely or very satisfied). Similarly questions five to seventeen measure the respondents’ attitudes with regard to specific loyalty related statements. A rating of 0 indicates a very negative attitude (strongly disagree) and a rating of 10 a very positive attitude (strongly agree). In all instances a rating of 5 represents a neutral view.

A summary of all the questions is presented in Figure 6.1.

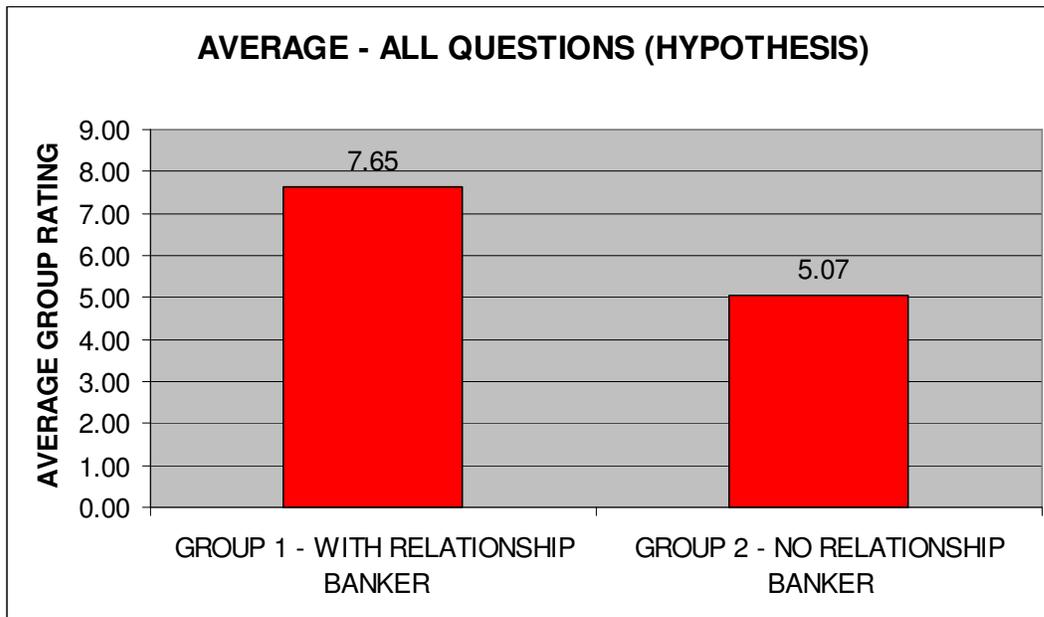
Figure 6.1 Customer loyalty measurement



6.2.1 The effect of relationship banking on customer loyalty in the retail business banking industry

Figure 6.2 presents the mean (average) of all the questions per group.

Figure 6.2 Average – All questions (Used for hypothesis)

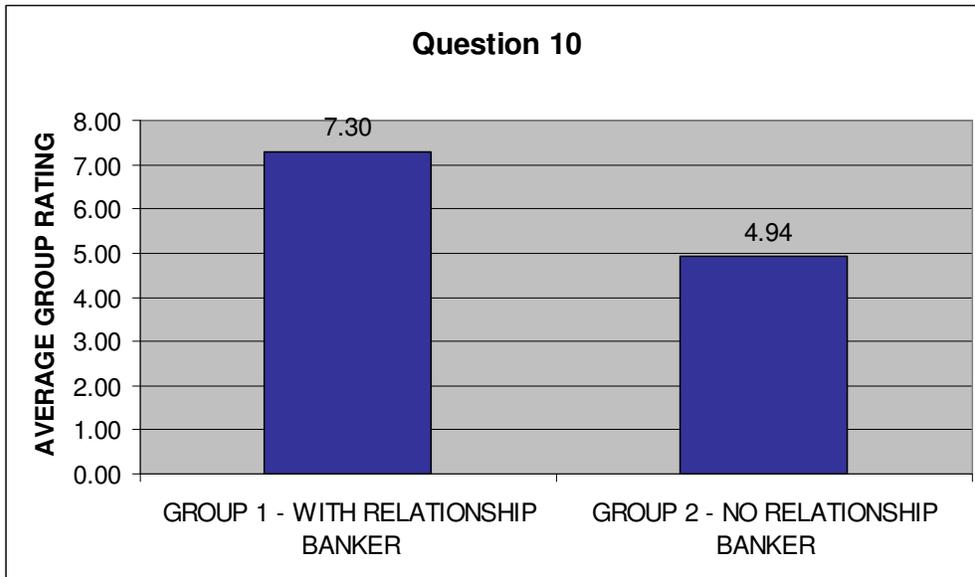


The mean for Group 1 is 7.65, which is a significantly higher rating than the mean for Group 2 of 5.07. The basis of the hypothesis and research is placed on the difference that exists between the two groups. The results reflect a higher level of agreement and favourable attitude by Group 1 towards the loyalty aspects and dimensions related to their bank. The mean of Group 2 indicates that they are generally more neutral towards the loyalty aspects and dimensions related to their bank.

6.2.1.1 I believe my bank deserves my loyalty.

The average rating of Group 1 is 7.3 and 4.94 for Group 2. The low rating of Group 2 indicates a low expectation of loyalty by customers themselves.

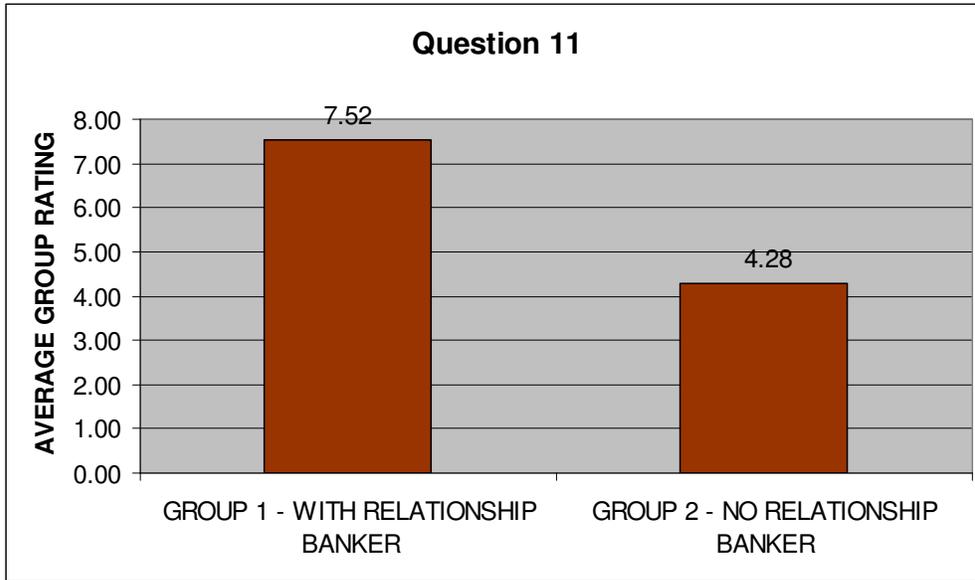
Figure 6.3 Question 10 – I believe my bank deserves my loyalty



6.2.1.2 Over the past year, my loyalty to my bank has grown stronger.

As per Figure 6.4 the average rating for Group 1 is 7.52, whilst lower at 4.28 for Group 2. The ratings indicate that customers from Group 1 believe their loyalty has grown, which supports the value of the relationship offering. However, the customers from Group 2 do not support any increase in their perceived loyalty and possibly even a negative movement.

Figure 6.4 Question 11 – Over the past year, my loyalty to my bank has grown stronger

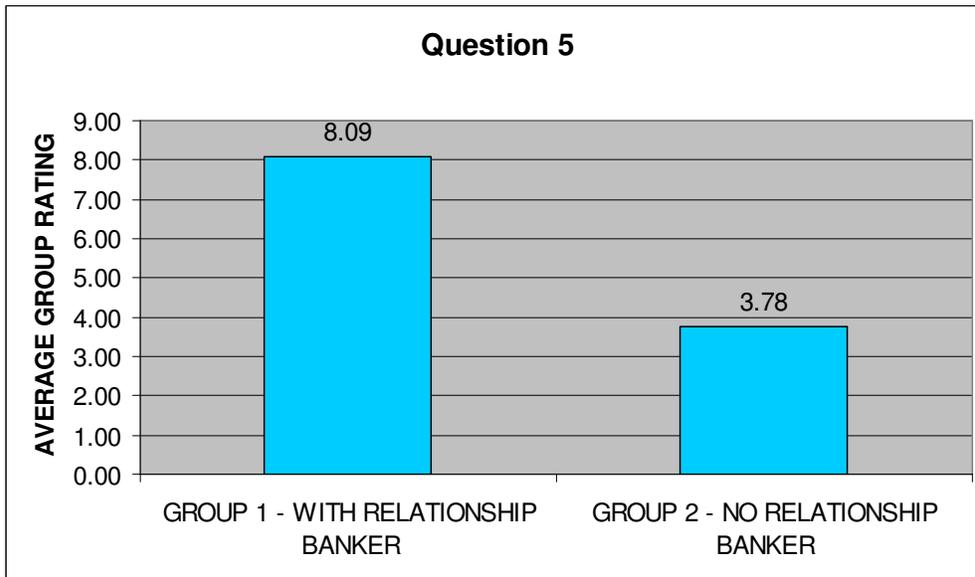


6.2.2 Critical factors and aspects of relationship banking that can influence customer loyalty

6.2.2.1 My bank really cares about building a relationship.

Figure 6.5 indicates a major contrast in the average ratings. Group 1 agrees to a high level that their bank cares about building a relationship, whilst Group 2 does not agree at all with this statement. It is clear that the customers from Group 1 experienced the relationship banking offering, whilst this can not be said for the customers of Group 2. It is also evident from the rating that Group 2 is indicating that their bank is not interested in building a relationship, which in itself is highly negative and can indicate a gap in the overall retail banking offering by banks. The results could also indicate that regardless of the characteristics of a customer, most of them would like to have a relationship with their bank. It is also in line with the overall loyalty rating, which indicates that relationship banking leads to customer loyalty.

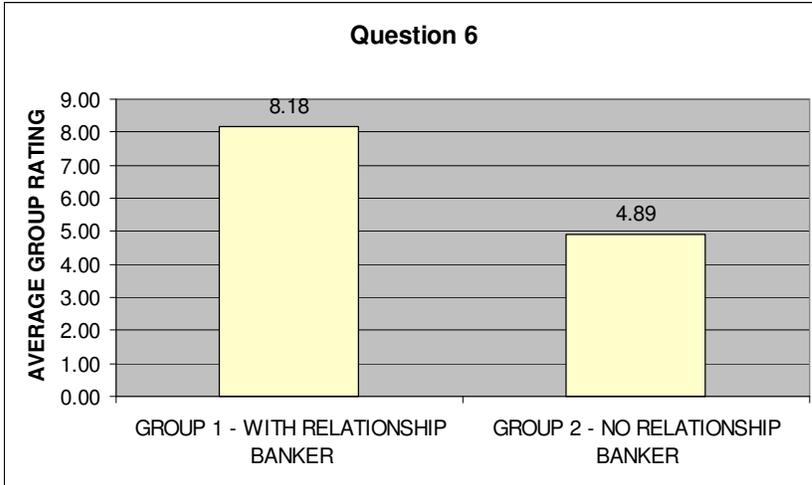
Figure 6.5 Question 5 – My bank really cares about building a relationship



6.2.2.2 My bank communicates openly and honestly.

Another major difference is evident in the results of Question 6, which is related to the customers' perception that they feel their banker communicates openly and honestly. As per Figure 6.6, Group 1 rated the question at a high 8.18, whilst Group 2 gives a below neutral rating of 4.89. Communication is critical in any relationship and the results indicate that the customers from Group 1 experience better communication than Group 2's customers. This is expected as a close personal relationship exists in the relationship offering and customer communication and contact is more regular. What is however concerning is the highly adverse rating by the non-relationship customers. Although they don't have the close personal communication, banks do communicate through different mediums with all their customers. The importance of regular communication and transparency are clearly indicated by this question.

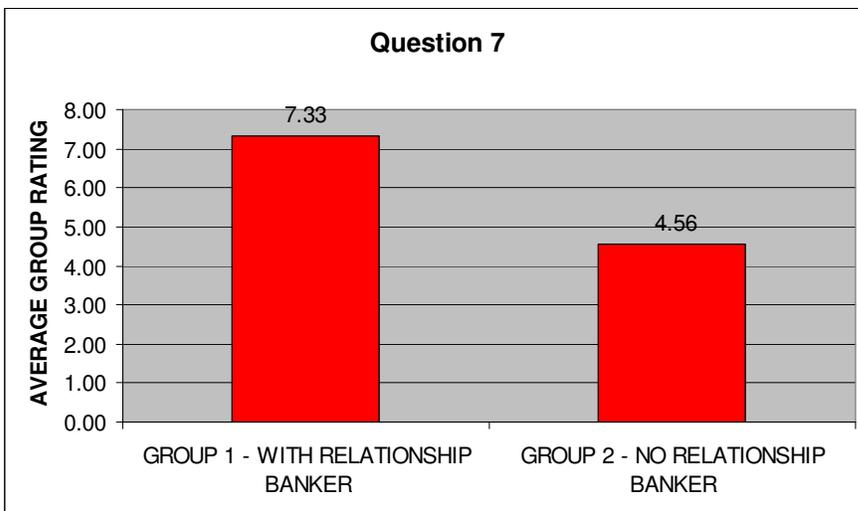
Figure 6.6 Question 6 – My bank communicates openly and honestly



6.2.2.3 My bank is committed to a win/win solution.

As per Figure 6.7 the average rating of Group 1 is 7.33 and another below neutral rating of 4.56 by Group 2. Both ratings are below the overall average rating as per Figure 6.2 indicating negativity. Group 2 doesn't deem their bank to be committed to a "win/win" solution, which is a critical aspect of relationships and customer loyalty.

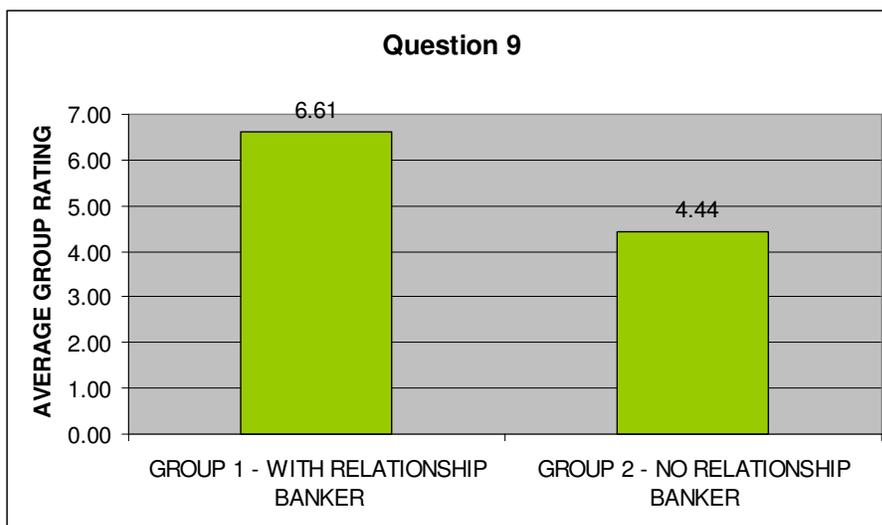
Figure 6.7 Question 7 – My bank is committed to a win/win solution



6.2.2.4 Customer loyalty is appropriately valued and rewarded at my bank.

As per Figure 6.8 the overall rating on the perception of valuing and rewarding loyalty is lower with Group 1 at 6.61 and 4.44 for Group 2. Both groups do not believe that customer loyalty is appropriately valued and rewarded. This seems to be a general gap in retail banks, which confirms that loyalty programmes have not been successful to date.

Figure 6.8 Question 9 – Customer loyalty is appropriately valued and rewarded at my bank

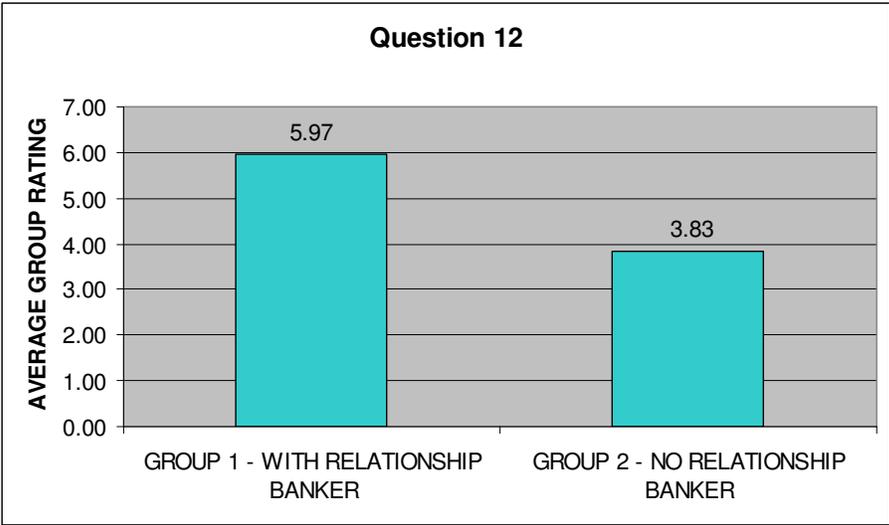


6.2.2.5 My bank values people and relationships ahead of short-term profits.

This aspect received the lowest and most negative ratings on both groups, which indicates the perceptions by the groups that people (employees) and relationships (customers) are less valued by their bank than profits and short-term gains. As per Figure 6.9 the average rating of Group 1 is 5.97 and 3.83 for Group 2. The recent “outrage” against high bank fees, excellent financial performance of banks and

exuberant emoluments for directors are seen to be the main reasons for this perception.

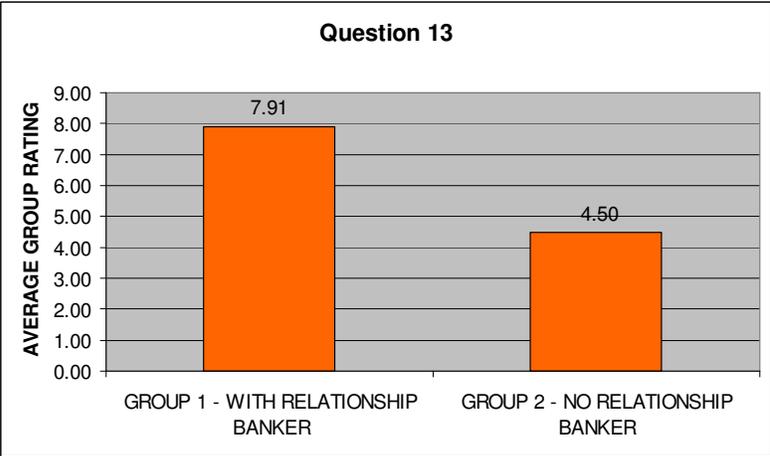
Figure 6.9 Question 12 – My bank values people and relationships ahead of short-term profits



6.2.2.6 My bank makes it easy for me to do business with them.

The average rating, as per Figure 6.10, indicates that Group 1 is 7.91 and 4.5 for Group 2. The results reflect that Group 1 believes that the relationship banking offering makes banking much easier for them, which impacts on their loyalty towards their bank. The business customers from Group 2 experience banking as cumbersome and business is not made easier. This reflects that the business banking offering again meets its objective of making life easier for its customers, which leads to creating customer loyalty. The business banker is able to facilitate transactions and processes, which is not experienced by the customers of Group 2, where support is limited.

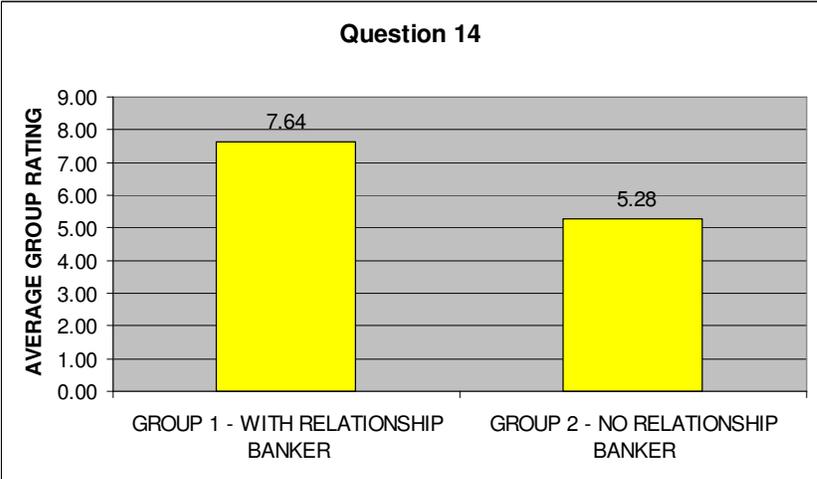
Figure 6.10 Question 13 – My bank makes it easy for me to do business with them



6.2.2.7 My bank sets the standard for excellence in its industry.

The average rating for Group 1 is 7.64 and 5.28 for Group 2. This rating is an indication of confidence that the customers from Group 1 have in their bank.

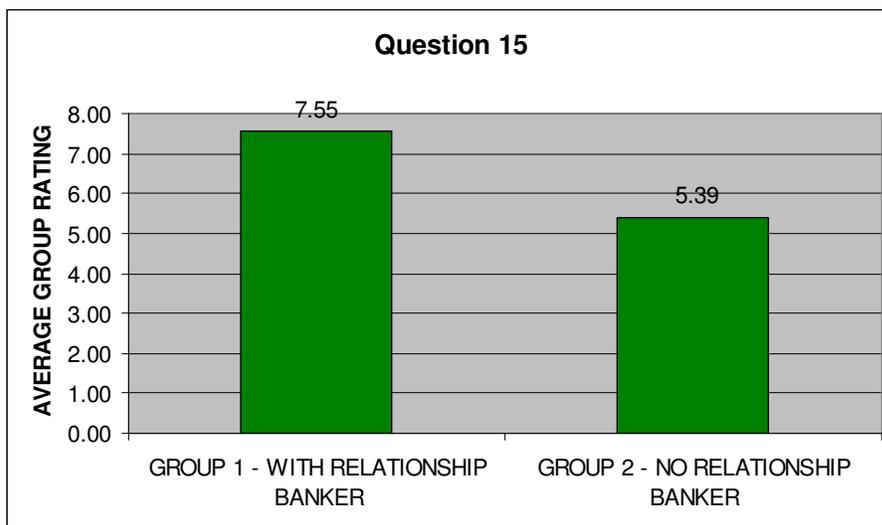
Figure 6.11 Question 14 – My bank sets the standard of excellence in its industry



6.2.2.8 My bank has a winning strategy.

The average rating for Group 1 is 7.55 and 5.39 for Group 2. This aspect is similar to Question 14, and relates to the customers' affection towards their bankers and trust they have in their business strategy. The overall opinion reflects a positive attitude towards their banker that will develop their perceived loyalty towards their bank.

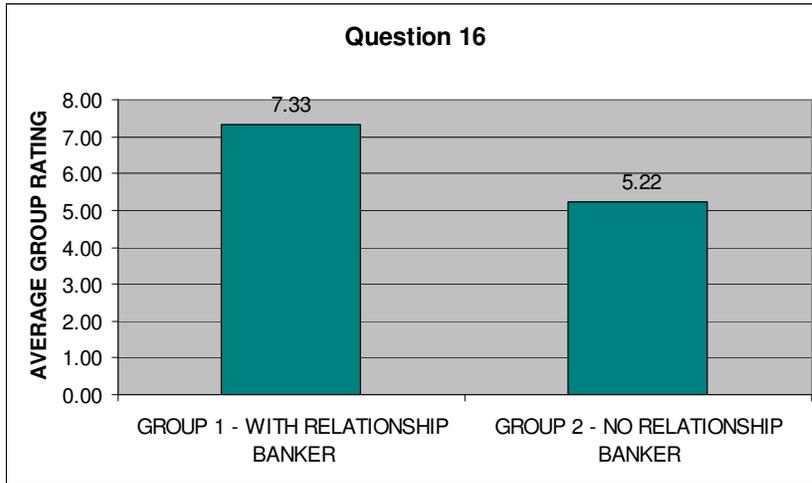
Figure 6.12 Question 15 – My bank has a winning strategy



6.2.2.9 My bank attracts and retains outstanding people.

Question 16 refers to an important aspect of the relationship banking offering, which is their opinion towards the relationship banker. As per Figure 6.13 the average rating for Group 1 is 7.33 and 5.22 for Group 2. Loyalty is relationship orientated and a relationship is normally developed with a person. The results reflect that Group 1 customers perceive their relationship banker as competent, whilst the view from Group 2 customers is more neutral. This also indicates that banks appoint the right people in the right positions. Profiling is an important aspect that flows from this dimension.

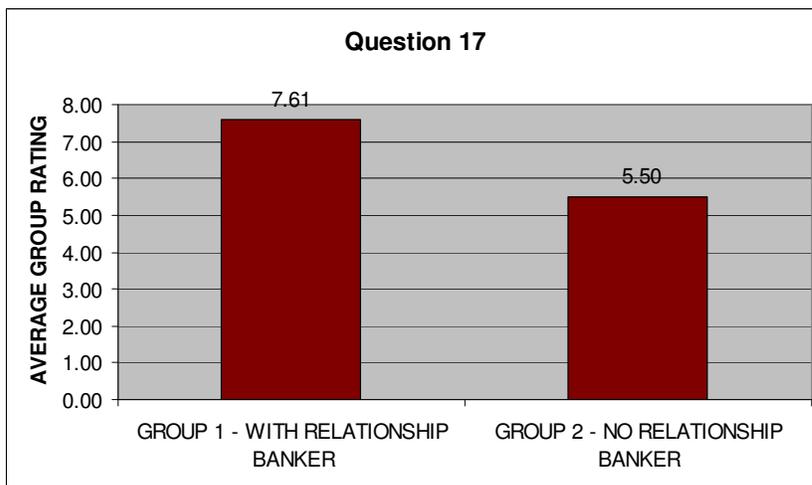
Figure 6.13 Question 16 – My bank attracts and retains outstanding people



6.2.2.10 My bank creates innovative solutions that make my life easier.

As per Figure 6.14 the average rating for Group 1 is 7.61 and 5.5 for Group 2. Technology and innovation support the relationship banking offering that can make life easier for a customer, which will result in higher levels of loyalty.

Figure 6.14 Question 17 – My bank creates innovative solutions that make my life easier

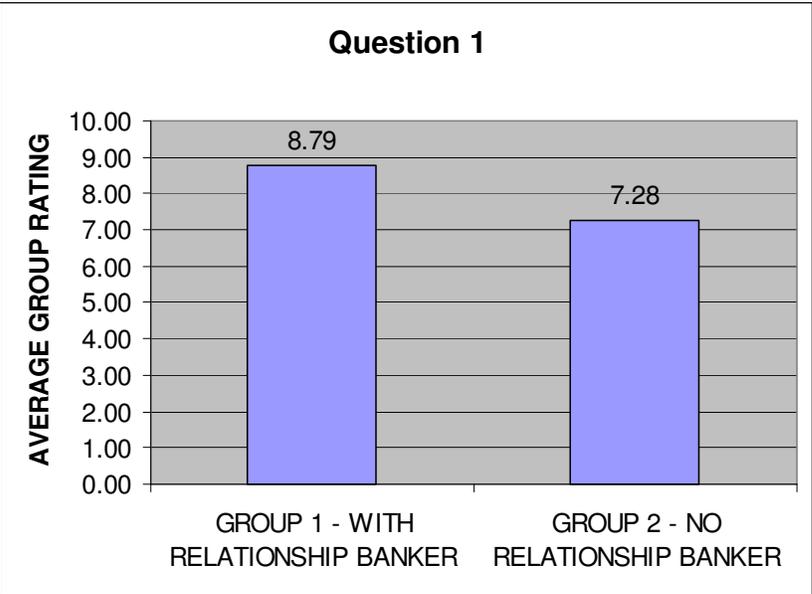


6.2.3 The benefits of relationship banking and customer loyalty

6.2.3.1 How likely are you to continue buying your bank's products and/or services?

The results of the survey, as indicated in Figure 6.15, reflect high ratings for both groups. The average of Group 1 is 8.79 and a slightly lower rating of 7.28 for Group 2. The likeliness of Group 1 to remain with their bank is extremely likely, whilst Group 2 is very likely. The high ratings indicate that both groups are very likely to continue banking with their current banker, which is in contrast with the neutral loyalty shown by Group 2 (Figure 6.2). This is possibly an indication of customer inertia.

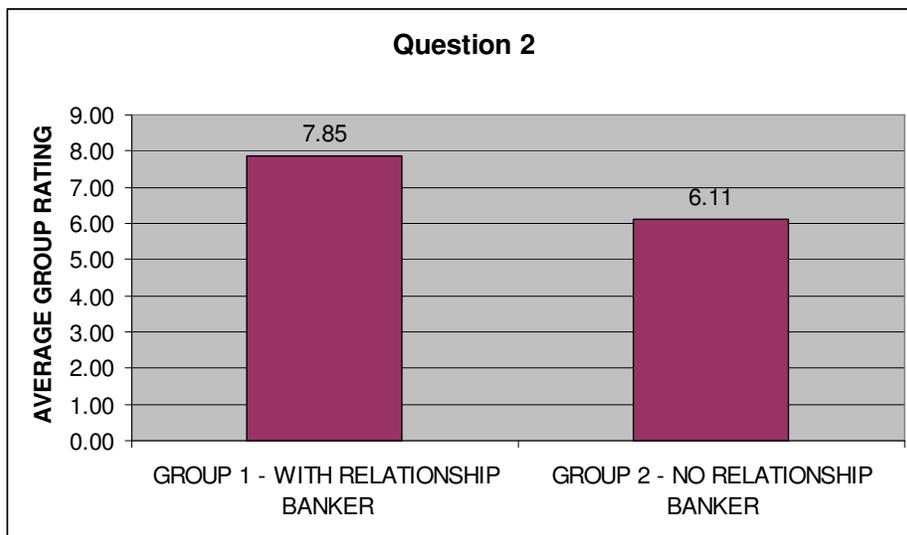
Figure 6.15 Question 1 - How likely are you to continue buying your bank's products and/or services?



6.2.3.2 If you were selecting a similar vendor for the first time, how likely is it that you would choose your bank again?

As per Figure 6.16 the average rating of Group 1 is 7.85 and 6.11 for Group 2. Both ratings are slightly lower than Question 1, but still very favourable for Group 1 and more neutral for Group 2. This could indicate that although the customers are willing to remain with their current bank, there is a possibility that some customers (specifically Group 2), if they knew then what they know now, they might not have chosen their current bank. Overall the ratings are still favourable and support Question 1 indicating that they will remain with their current bank, which supports retention.

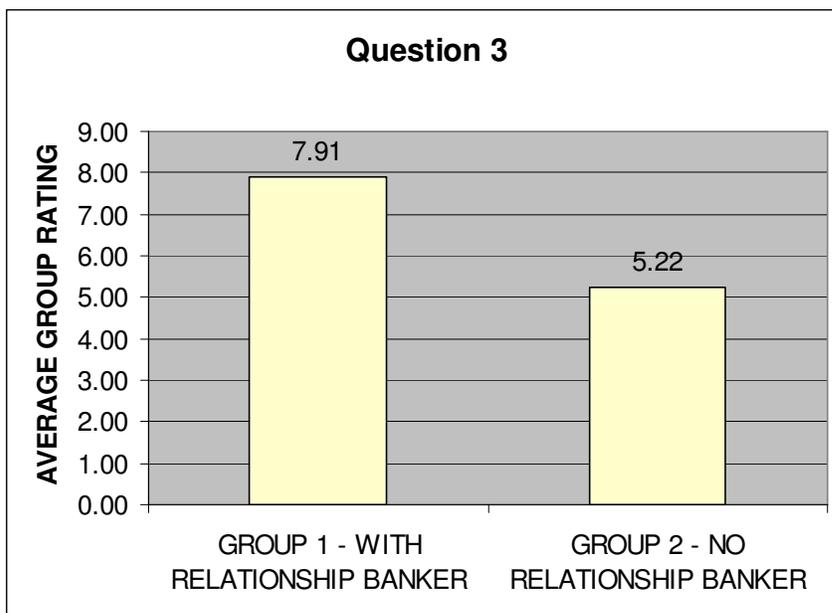
Figure 6.16 Question 2 - If you were selecting a similar vendor for the first time, how likely is it that you would choose your bank again?



6.2.3.3 Overall, how likely are you to provide enthusiastic referrals for your bank?

As per Figure 6.17 the average rating for Group 1 is 7.91. Group 2's rating is much lower (neutral) at 5.22. The results indicate that customers from Group 1 are more likely to refer other customers, thus willing to take a "risk" and place their "approval" behind their bank. Group 2 customers are however very neutral about referring others to their bank, which could be an indication that they are not willing to take the "risk" in placing their names behind their bank. Providing referrals is also one of the main indicators of customer loyalty and the results are in line with the overall rating of customer loyalty as per Figure 6.2.

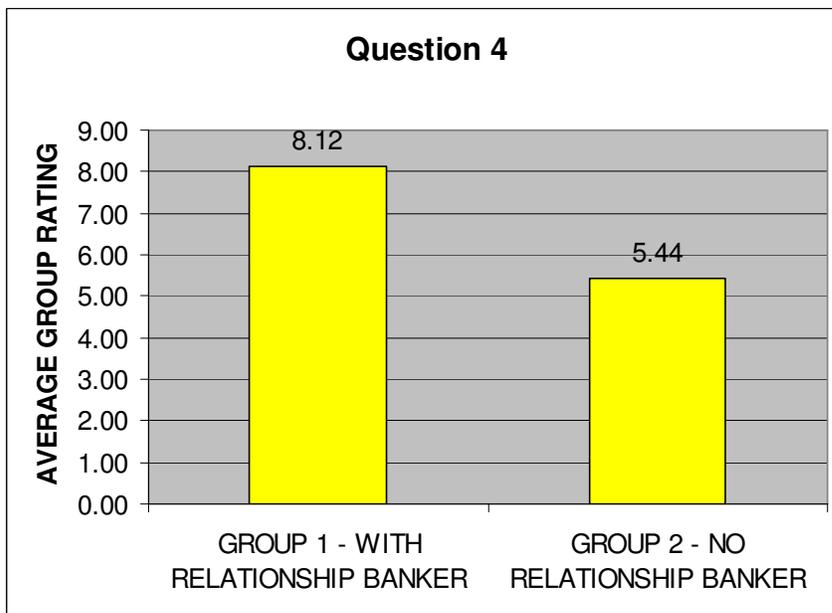
Figure 6.17 Question 3 - Overall, how likely are you to provide enthusiastic referrals for your bank?



6.2.3.4 Overall, how satisfied are you with your bank?

The average ratings are given in Figure 6.18, with Group 1 at 8.12, whilst lower at 5.44 for Group 2. The results indicate that Group 1 is very satisfied with the overall service they received, whilst Group 2 is again neutral. Customer satisfaction is one of the key aspects that impact customer loyalty and the results support the overall ratings as per Figure 6.2. This also supports the aim of relationship banking to increase customer satisfaction and eventually customer loyalty. A comparison of Figure 6.2 and Figure 6.18 reflects that satisfied customers are more loyal than less satisfied customers, who are not as loyal towards their bank.

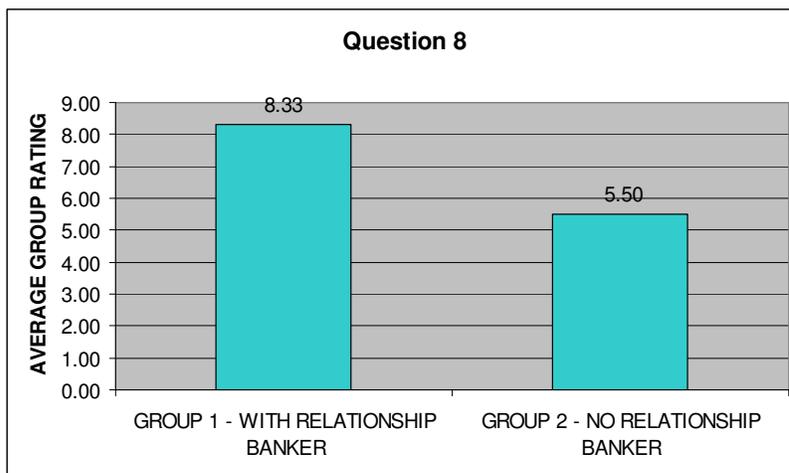
Figure 6.18 Question 4 - Overall, how satisfied are you with your bank?



6.2.3.5 I trust my bank's leaders and personnel to behave with fairness and integrity

Figure 6.19 indicates a very high level of agreement by Group 1 of 8.33 and a more moderate rating of 5.5 by Group 1 were obtained with regards to the question of trust, fairness and integrity. The ratings are above the overall ratings as per Figure 6.2, which indicates an overall positive experience. The high rating by Group 1 indicates the success of the relationship banking offering and the importance of the personal interaction. Trust and integrity are also critical aspects for creating customer loyalty, and the favourable rating of Group 1 confirms their roles.

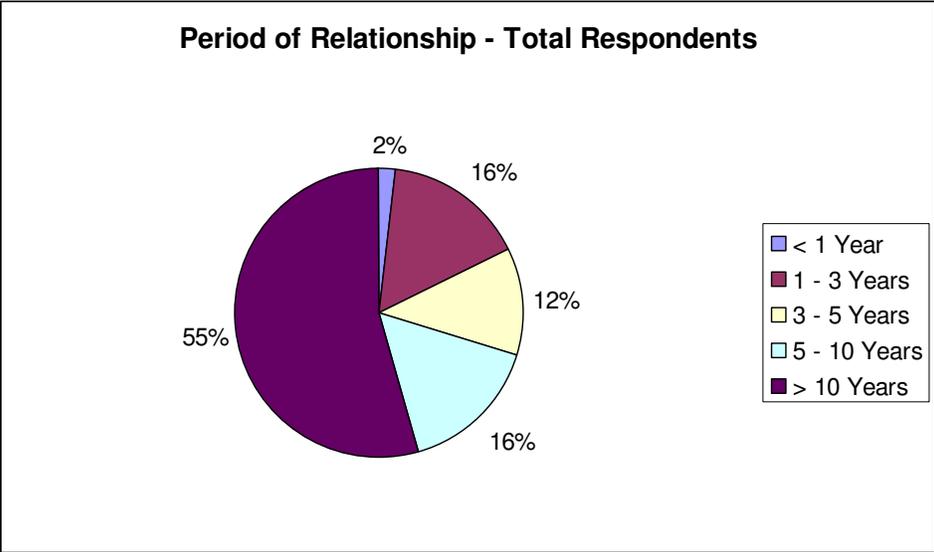
Figure 6.19 Question 8 – I trust my bank's leaders and personnel to behave with fairness and integrity



6.2.4 Period of relationship

In Question 18 the sample was given the opportunity to indicate the term of their relationship with their bank. Figure 6.20 depicts that the bulk of the respondents, 55%, have been with their banker for longer than 10 years.

Figure 6.20 Period of relationship – All respondents



The average perception of customer loyalty across all questions, but categorised according to period of relationship with bank are depicted in Table 6.2 below. No significant trends or interpretations are evident from this data.

Table 6.2 Average customer loyalty across all questions and relationship periods

Respondents	<u>< 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>5 - 10 Years</u>	<u>> 10 Years</u>
With a Relationship Banker	8.41	6.53	8.44	7.54	7.73
With No Relationship Banker	NA	4.99	4.74	5.03	5.33

6.2.5 Qualitative response - What is the one thing your bank can do to increase your loyalty to them?

82% of the respondents completed the qualitative portion of the questionnaire. Common features included the following:

Negative replies -

- *“my bank must be more pro-active and offer solutions”*
- *“contact me now and then”*
- *“be available when I need you”*
- *“live up to your service and marketing commitments”*
- *“return the loyalty that I give”*
- *“understand my business better”*
- *“recognise my loyalty”*
- *“make financial expertise available to me and give me guidance”*
- *“treat me with respect”*
- *“give me one point of contact”*
- *“be consistent across divisions”*
- *“align your pricing according to my loyalty”*

Positive replies:

- *“maintain the current regular contact”*
- *“my banker has gone out of his way to understand my business”*
- *“maintain the regular communication”*
- *“since I have been given a relationship manager the service have improved”*
- *“I am happy with my current personal banker”*
- *“my loyalty is associated with the excellent business relationship with my relationship manager”*
- *“if it wasn't for my relationship manager we would have considered changing to an alternative bank”*

6.3 Hypothesis test result

The one-tailed t-test for independent groups was used to test the hypothesis. The objective of the statistical tool was to determine if a statistical significant difference exists between the two groups. The desired level of significance used was 0.05. Table 6.3 includes the results from the t-test. The results indicate that the calculated value is larger than the critical value and that there is a statistically significant difference in the results from the business customers with a relationship banker or personal banking relationship, as apposed to business customers with no relationship banker or personal relationship with their bank. The null hypothesis is thus rejected and the alternative hypothesis supported. This is an indication that a relationship banking offering by retail banks does influence customer loyalty.

Table 6.3 t-test

<u>t-Test: Two-Sample</u>		
	<i>Group 1</i> <i>With a Relationship Banker</i>	<i>Group 2</i> <i>Without a Relationship Banker</i>
Mean	7.648841355	5.068627451
Variance	0.431251013	0.719725853
Observations/Question	17	17
Pooled Variance	0.575488433	
Hypothesized Mean Difference	0	
Degrees of freedom	32	
t Stat	9.916236465	
P(T<=t) one-tail	1.39203E-11	
t Critical one-tail	1.693888703	

6.4 Conclusion

This chapter contains graphic representation and interpretations of the research results as well as the result of the hypothesis. The discussion, conclusion and recommendations regarding the research follow in Chapter 7.

CHAPTER 7: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

In Chapter 1 a broad study orientation is given, followed by an overview of the theoretical foundation of the study, which elaborates on relationship marketing, consumer behaviour, customer segmentation and CRM in Chapter 2. In Chapter 3 a literature review is done on previous research and views on relationship banking and customer loyalty. Chapter 4 identifies the research problems and hypothesis, whilst in Chapter 5 a full exposition of the study is given, which includes the research design and analysis. In Chapter 6 the results of the primary research are presented and interpreted.

In this chapter the researcher concludes the study with a discussion of the research findings, a conclusion and recommendations.

Section 7.2 discusses the outcome of the study and relevant research findings.

Section 7.3 elaborates on the potential implications of the research.

In Section 7.4 the researcher identifies possible future research recommendations to support or contribute to the relationship banking and customer loyalty study fields.

7.2 Discussion

In this section the findings from the field survey will be integrated with the theoretical foundation and literature review. The basis of the study is to determine the effect of relationship banking on the customer loyalty of business banking customers in retail banks in South Africa. The objectives of the study will be the focus of this section:

- To investigate the impact that relationship banking has on the loyalty of business banking customers in retail banks in South Africa.

- To identify the critical factors of relationship banking that can influence customer loyalty.
- To identify the benefits of relationship banking and customer loyalty.

The conceptual model presented in Chapter 3 Figure 3.3 supports the objectives set of linking relationship banking with customer loyalty. The model describes the key variables of the phenomenon being researched and how the variables link to one another. The first important aspect is to understand the concept of relationship marketing. Relationship marketing involves the dimensions of inter-relationships, consumer behaviour, segmentation, measurement, CRM, relationship-based selling and top management support. The second aspect involves the relationship banking offering itself. The critical factors include the value proposition, service and quality, employee competency (relationship banker), price, reward and recognition, and communication. The last part of the conceptual model concludes the principle of customer loyalty and its benefits. One of the main objectives of the relationship banking offering is to create a higher level of customer loyalty and develop this loyalty over time. The benefits include retention of customers and staff, customer satisfaction, trust, word of mouth referrals and growth, cost reduction, cross-sales, profitability (relationship lifetime value) and enhancement of the bank's competitive advantage.

7.2.1 The effect of relationship banking on customer loyalty in the retail business banking industry

The results from the survey, as reflected in Figure 6.2, as well as previous studies discussed in the literature review support the view that relationship marketing, or in this case relationship banking, enhances customer loyalty (Cheese, 1994; Gummesson, 1998; Abratt & Russell, 1999; Cram, 2001; Iniesta & Sánchez, 2002; Rigby, Reichheld & Dawson, 2003; Ferreira). In section 6.3 the null hypothesis is rejected, which confirms that the alternative hypothesis is supported. This indicates

that there is a statistically significant difference in the results from the business customers with a relationship banker or personal banking relationship, compared to business customers with no relationship banker or personal relationship with their bank. This is an indication that a relationship banking offering by retail banks does influence customer loyalty positively.

Somewhat contradictory to the generally positive findings from the research for Group 1, both groups experienced that their bank places short-term profits before people and relationships. This aspect received the lowest and most negative ratings. The recent “outrage” against high bank fees, excellent financial performance of banks and exuberant emoluments for directors are seen to be the main reasons for this perception. Some respondents indicated that pricing is too high, or that the bank must price according to their loyalty. This could be an indication that customers understand that banks’ number one aim is to create shareholders’ wealth (Gibbs, 1985). However this could also be a warning light that banks should take cognisance of this perception of customers. Reichheld (1996) found that loyal customers are willing to pay a “price premium”. Bothe (1996) found that customers are driven by value received rather than price and that price cannot create loyalty. It is however a factor that must be considered in the relationship banking offering (Cheese, 1994). The qualitative portion of the survey had a few respondents commenting on price, which supports the prior research. However, Abbratt & Russell (1999) found that price was the most important factor for private banking customers that received a relationship banking offering. A possible solution to this aspect is a move to relationship pricing that is based on long-term pricing rather than pricing based on short-term considerations (Ambler, 2003).

Group 1 belief that their bank deserves their loyalty and indicates that their loyalty has grown over the last year. This confirms that the objective of the relationship offering is achieved, whilst the opposite is evident for Group 2 customers. The objective of relationship banking is to enhance and develop customers’ loyalty over the long-term (Rayner, 1996; Abratt & Russell, 1999; Reichheld, 2003). The respondents indicated that the bank must return loyalty and that their bank’s loyalty is important to them.

7.2.2 Critical factors and aspects of relationship banking that can influence customer loyalty

The critical factors include the relationship banking value proposition, service and quality, relationship banker competency, price, reward and recognition, and communication. The relationship marketing and relationship banking offering is an integrated principle and relationship banking develops and flows from relationship marketing (Christopher et al, 1991). The value proposition encapsulates the relationship offering or value-add to the customer in totality. It covers aspects such as one-to-one contact, reliable performance, trust, accessibility, education, individuality, product benefits, service, quality, assistance, communication, recognition and preferential treatment (Cheese, 1994; Gummesson, 1998; Abratt & Russell, 1999; Cram, 2001). The relationship banker plays a critical role in the relationship banking offering as the relationship is developed between customer and banker (Julian & Ramaseshan, 1994; Gummesson, 1998; Ellis, 2004; Murray, 2004). The relationship banker must be competent, experienced, knowledgeable, qualified, customer-orientated, service-orientated and motivated.

Banks in general aim to build relationships with their customers, but due to the high costs of one-to-one relationships, they cannot entertain all their customers' need to have a personal relationship banker (Howcroft et al, 2003; Murray, 2004). As part of the relationship banking value proposition they focus on building strong relationships with their high value customers to retain and satisfy them (Barnes & Howlett, 1998; Abratt & Russell, 1999). The Group 1 business customers felt that their bank really cared about building a relationship with them, whilst the Group 2 customers had an adverse perception of their bank's intention to build a relationship. This firstly indicates that the relationship banking value proposition is working for the high value customer and achieves the objective set by banks. Secondly the findings indicate a gap in the relationship offering to the next level of customers. This is a concerning aspect as most customers, would like to have a relationship when it comes to

banking. The research has also identified that it is human nature that most humans or in this case business customers, seek and value relationships, and strive to develop and also improve their relationships. It is no different in the retail banking environment, and possibly more important because when it comes to financial matters customers would only like to share this with someone they can trust and have a close relationship with. It is also in line with the overall loyalty rating, which indicates that relationship banking leads to customer loyalty.

The role of the relationship banker is one of the critical aspects that make relationship banking successful or not (Murray, 2004). The relationship banker is responsible for delivering the relationship value proposition to the customer. The main roles include service delivery, developing and building a relationship with the customer. Customers prefer face-to-face interactions with their bank, when purchasing complex and specialised services (Howcroft et al, 2003). Group 1 again rated their relationship banker more positive than the business customers in Group 2. Both groups indicated that they want one point of contact, specialised advice and regular interaction. The business customers from Group 1 consistently pointed out the importance of their relationship banker in their dealings with the bank. Some respondents indicated that they want their bank or relationship banker to understand their business. This is unfortunately only really possible if the relationship banker can call on the customers at their premises, which is not possible for regular branch staff that are restricted to the office, but possible for relationship bankers. It is evident that the relationship banker is valued by the customers and that it is an important link in the inter-relationship of relationship marketing (Bennett & Durkin, 2002). The interpersonal skills and abilities required by a relationship banker include listening skills, strong verbal and non-verbal communication skills, experience in probing and questioning techniques, being empathetic, telephone skills, written communication skills, assertiveness, and negotiating skills (Julian & Ramaseshan, 1994). The relationship banker must also have the ability to build confidence and trust quickly (Gummesson, 1998). In the banking industry loyalty is directly linked to the relationship banker (Reichheld, 1996; 2001; Ambler, 2003). The high cost of the one-to-one offering is a

complication and it is not feasible to provide this value proposition across all market segments (Murray, 2004).

The business customers with a relationship banker or receiving a relationship banking offering (Group 1) perceived their bank to be committed to a “win/win” scenario. The business customer that did not have a relationship banker or received the relationship banking offering (Group 2) did not deem their bank to be committed to a “win/win” solution. In addition the ratings were similar on their perception that their bank has a winning strategy. These are critical aspects of relationships that support the development of customer loyalty (Abratt & Russell, 1999; Gummesson, 1998). The relationship is based on a win-win scenario where all parties involved receive increased and mutual value.

The survey indicated the importance of communication in any relationship (Bhote, 1996; Cram, 2001; Grigoroudis et al, 2002; Perreault & McCarthy, 2002). The Group 1 customers were very positive and satisfied with the communication and flow of information, which is also one of the key aspects of the relationship banking offering. On the other hand the Group 2 customers experienced the communication very negatively. The qualitative responses from the customers supported the view that regular contact must be maintained. A solution for banks is the use of CRM and CRM systems that can assist in their aim to communicate consistently and accurately to all customers (Murray, 2004; Barnes & Howlett, 1998). Customers derive higher levels of trust via face-to-face interaction with their banker rather than through alternative channels (Howcroft et al, 2003).

Not one of the groups deemed their bank to value them or reward them appropriately. Although Group 1 was marginally positive it was still their second lowest rating overall, which indicates that customers in general don't believe they are appropriately valued and rewarded. Customers want to feel valued, treated in a unique manner and rewarded or recognised (Barnes & Howlett, 1998; Gummesson, 1998; Abratt &

Russell, 1999; Cram, 2001; Gray & Byun, 2003). This raises the question of the success of loyalty programmes and whether they are valued by customers.

Group 1 experienced their bank making it easier for them to do business, as well as perceiving their bank to set the standard for excellence in the industry. Group 2 did not experience banking as being easy for them at all. The importance of innovation is related to standards of excellence and ratings were similar. Some respondents indicated that their bank must be more proactive and provide solutions. This reflects again that the relationship banking offering meets its objectives and value proposition. The value proposition includes reliable performance, trust, accessibility, service, assistance and preference, which will lead to increased customer loyalty (Reichheld, 1996; Voss & Voss, 1997; Fournier et al, 1998; Cram, 2001).

7.2.3 The benefits of relationship banking and customer loyalty

The principle of customer loyalty and its benefits concludes the conceptual model. One of the main objectives of the relationship banking offering is to create a higher level of customer loyalty and to develop this loyalty (Rauch, 1993; Reichheld, 1996; Gummesson, 1998; Kotler, Armstrong, Brown & Adam, 1998; Abratt & Russell, 1999; Cram, 2001; Iniesta & Sánchez, 2002; Ferreira, 2004; Reichheld, 2003). The benefits include retention of customers and staff, customer satisfaction, trust, word of mouth referrals and growth, cost reduction, cross-sales, profitability (relationship lifetime value) and enhancement of the bank's competitive advantage.

The survey results indicated that both groups of the sample have a high probability of remaining with their current banker and continue using their products and services. Both groups are also fairly positive towards the aspect of supporting the same bank if they had to decide again. This aligns with Levitt's (1981) statement that banking allows no room for "divorce" and that a banking relationship is similar to a process of becoming a designated supplier. Where the nature or service is complicated such as financial services, retention is also higher. The financial services demanded and

products used by business customers are normally more complex than those used by individuals, which also confirms the high probability of remaining with their banker. However, complexity of products and services are not sufficient to ensure retention and the focus must rather be on creating relationships (Gibbs, 1985). A durable relationship will encourage a customer to rather do something about a problem than quietly defect (Duffy, 1998). The higher average of Group 1 is in line with research by Cheese (1994), which indicated that where involvement is high, customers are more conversion resistant. His research also proved that where close relationships exist customers are more willing to forgive and not change bankers if problems or complaints arise. However, a reason for not defecting can also be customer inertia (Cheese, 1994). Many customers don't move because of the "hassle factor", "laziness" and "lack of differentiation", which could be reasons why Group 2 customers are willing to continue supporting their current bank (Howcroft et al, 2003).

The results from the survey indicated that customers who received a relationship banking offering are more willing to refer other businesses to their banker. According to Reichheld (2003) and Vinocur (2004) referring others to a company is the best sign of customer loyalty and sacrifice. If a customer is willing to put his reputation on the line he is willing to go beyond indicating satisfaction or receiving good economic value, and this will indicate an "intensely" loyal customer. The conclusion can thus be made that based on this principle, relationship banking leads to customer loyalty.

The research reflects that the relationship banking customers experienced a higher level of customer satisfaction. This supports the relationship banking offering as its aim is to provide a higher level of service and value offering to the customer. However, customers who are satisfied are not necessarily loyal (Novo, 2004). Satisfied customers will stay until a better alternative is offered or some problem arises, whilst loyal customers are not dependent on satisfaction alone and tend to forgive and understand if minor problems occur.

The importance of trust and integrity in a relationship was clearly reflected in the research results. The survey results indicated that where a close relationship exists the customers perceived the trust and integrity of their banker to be much higher than those customers who did not enjoy a close relationship. Customers, who share the values of a bank and trust it, will recognise the mutual benefits coming from extended product use within a relationship (Cheese, 1994; Howcroft et al, 2003). Group 1 customers also deemed their bank to have a winning strategy, which supports their trust in their banker. Trust is an important part of any relationship and critical to development of loyalty (Christopher et al, 1991; Grönroos, 1994b; Reichheld, 1996; Barnes & Howlett, 1998; Duffy, 1998; Wetzels et al, 1998; Cram, 2001).

The opportunity for cross-sales increases as the relationship develops and loyalty is vested (Cheese, 1994; Grönroos, 1997). Cross-sales support “locking-in” customers and improve retention.

Long-term customers who are loyal are able to reduce their costs as they become very efficient buyers once they start to know the business and its products or services (Reichheld, 1996). Costs will similarly reduce for the bank as customers don't have to refer to them for routine purchases and information which has become known to them.

The research discussed in the literature review indicated that relationship banking can create value and increase revenues (Cheese, 1994; Fournier et al, 1998; Cram, 2001). By building meaningful relationships with customers a bank can increase market share and improve its bottom line by reducing costs and increasing revenues. The value of the relationship grows over time through extended product and service use, cross-selling and word-of-mouth referrals. The research refers to the relationship lifetime value and the calculation is based on the present value of future cash flows (Johnson, 2002; Ambler, 2003; Kennedy, 2004). Related research supports the findings and indicates that loyal customers are also more profitable (Bhote, 1996;

Reichheld, 1996; Novo, 2004). Loyal customers tend to purchase more frequently and spend more (Rayner, 1996).

Finally the relationship banking offering and development of customer loyalty strengthens the bank's competitive advantage (Christopher et al, 1991; Reichheld, 1996; Duffy, 1998; Gummesson, 1998; Abbratt & Russell, 1999; Ambler, 2003; Reichheld, 2003).

7.3 Conclusion

This section elaborates on the potential implications of the research.

Retail banks need to develop relationship strategies for all levels of customers. Whilst the intention is to retain all customers and provide them with some level of a relationship offering, customers in the survey did not experience the relationship offering at lower levels. A possible remedy is that banks should consider a relationship strategy based on different levels of relationship offerings: high-touch; medium-touch; and low-touch. These different value propositions should represent mutual (bank and customer) requirements and financial feasibility for banks. Banks must place customer-centricity at the core of their relationship banking strategy.

To support relationship strategies, banks need to understand the behaviour of their customers and their buying habits. Market segmentation is a critical aspect of relationship marketing and the segmentation of business customers must be in line with the different levels of relationship offerings. Segmentation should be in line with customer value or customer profitability, complexity of financial demands, annual turnover and industry. This segmentation will allow banks to provide the correct relationship banking offering to the right customer. To support the segmentation process, banks need to be able to determine the individual customer profitability. Management information systems must be developed and used to determine the customer's profitability. Once the segmentation has been concluded, banks must

implement and use applicable CRM strategies and CRM systems to complement the relationship banking offering. It's about knowing their customers well enough to determine the kind of relationship they would like to have. Banks must also try to extend their CRM strategy across all customers. Support from top management and understanding of the relationship banking offering is critical as a lack of support can derail the success.

The outcome of the study and relevant research findings as discussed in 7.2 confirmed, through respondent consensus and the literature review, that the following factors as part of relationship banking, are important in creating customer loyalty (for business customers): relationship banking value proposition, service and quality, relationship banker competency, price, reward and recognition, and communication. The benefits of relationship banking include: retention of customers and staff, customer satisfaction, trust, word of mouth referrals and growth, cost reduction, cross-sales, profitability (relationship lifetime value) and enhancement of the bank's competitive advantage.

From the research it is clear that relationship banking enhances business customer loyalty, which again has numerous advantages and benefits for retail banks in South Africa. This concludes that for retail banks to achieve sustainable success, they require a relationship banking model that considers the importance of customer loyalty.

7.4 Limitations and recommendations

The researcher concludes from the research conducted that relationship banking is applicable and indeed, a business imperative, in the retail banking industry. Relationship banking also affects customer loyalty positively.

The limitations identified in the study are again presented, as the research is not without limitations:

- Confidentiality policies of banks on customer information limited the collection of demographic data. All customer demographic data were withheld and the research purely focused on the feedback on aspects relating to relationship banking and customer loyalty. This limits the value of the research as demographic information could expose additional findings.
- The study did not focus on brand loyalty, loyalty programmes, customer rewards and incentives. Although these aspects could influence the banking relationship and customer loyalty, the researcher limited the study to specific research objectives and deemed the aspects mentioned as research fields in their own right.
- The study focused on customer loyalty and did not investigate aspects relating to employee loyalty and loyalty of other stakeholders.
- There were only 51 respondents of the sample of 160. Difficulties were experienced in the collection process, which are prevalent of the electronic mail method used, for example: low response rates; no interviewer intervention; clarification cannot be sought; accurate mailing lists are needed; and the questionnaire cannot be long or complicated (Cooper & Schindler, 2003). Of the 51 respondents 33 were from the sample that included customers who have a relationship banker or a close relationship with their banker, and the remaining 18 respondents were from the sample of customers with no relationship banker or no close relationship with their banker. There were thus differences in the number of respondents per group, which also influence the comparability.

The researcher recommends that all retail banks align their interaction with their business customers to a relationship banking model that includes a high-touch, medium-touch and a low-touch offering. This offering will be aligned to segmentation

of customer value as it is not cost prudent and economically viable to provide a one-to-one offering to all business customers.

The following suggestions are made for future investigations:

- Research on the calculation of relationship life time value.
- Research on a model for appropriate market segmentation of business banking customers in South Africa.
- Research on the importance of reward and recognition strategies to valued customers, plus loyalty programmes.
- Research on the key characteristics of relationship bankers.

Studies that will encompass the above elements are expected to be very expensive and will require substantial financial, time and other resources.

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APPENDIX A: The four stages in the evolution of customer loyalty

Characteristic		Stage 1: Innocent	Stage 2: Awakened	Stage 3: Progressive	Stage 4: World Class
1	Scope	Inward Preoccupation	Cost Reduction Driven	Competition Driven	Adding value to customer
2	Focus	Commodity	Technology / Quality	Customer Satisfaction	Customer Loyalty
3	Customer Segmentation	No Differentiation	Elimination of dog customers	Internal Customer and company stakeholders	Core Customers
4	Management	Bureaucratic Dictatorial	Micro - management	Coach	Vision, Inspiration, Leadership
5	Organisation	Vertical Management	Matrix Management	Delivering; Flat pyramid	Cross-functional teams; CCO
6	Goals	Fighting "Forest fires"	Making the Budget	Meeting Customer Expectations	Delighting Customers
7	Customer Requirements	Determined by Management/ Engineering	Determined by Market Research	Determined by conjoint analysis, other techniques	Determined by QFD
8	Customer Measurements	Maximise Sales And Profits	Minimise Complaints	Maximise market Share	Maximise customer Retention
9	Analysis of Feedback	Little or no Follow-up	Survey Instruments never changed	Customer Satisfaction Index	Former and non-customers analysed
10	Improvement Tools	Seven Tools of QC	Brainstorming and statistical tools	Creative tools: VE and force field analysis	Business process reengineering

Source: Bhote (1996: 4)

APPENDIX B: Measurement instrument – Customer Acid Test

Please complete the following survey that will help us understand your views as a Company XYZ customer?

The survey should only take about 5-10 minutes. Please complete the survey no later than X date.

Thank you very much for your time and for participating in this important effort!

1. How likely are you to continue buying Company's products and/or services from Company xYz?

2. If you were selecting a similar vendor for the first time, how likely is it that you would choose Company xYz again?

3. Overall, how likely are you to provide enthusiastic referrals for Company xYz?

4. Overall, how satisfied are you with Company xYz?

Please rate your level of agreement with the following statements/questions.

Attribute	Agreement
5. Company really cares about building a relationship with me	<input type="text" value="Click here -->"/>
6. Company communicates openly and honestly	<input type="text" value="Click here -->"/>
7. Company is committed to win/win solutions (does not take advantage of its partners or customers)	<input type="text" value="Click here -->"/>
8. I trust Company's leaders and personnel to behave with fairness and integrity	<input type="text" value="Click here -->"/>
9. Customer loyalty is appropriately valued and rewarded at Company	<input type="text" value="Click here -->"/>
10. I believe Company deserves my loyalty	<input type="text" value="Click here -->"/>
11. Over the past year, my loyalty to Company has grown stronger	<input type="text" value="Click here -->"/>
12. Company values people and relationships ahead of short-term profits	<input type="text" value="Click here -->"/>
13. Company makes it easy for me to do business with them	<input type="text" value="Click here -->"/>
14. Company sets the standard for excellence in its industry	<input type="text" value="Click here -->"/>
15. Company has a winning strategy (superior economics in serving its customers)	<input type="text" value="Click here -->"/>
16. Company attracts and retains outstanding people (employees, partners, etc.)	<input type="text" value="Click here -->"/>

17. Company creates innovative solutions that make my life easier

Click here -->



Descriptive Information

18. How long have you been a customer of Company xYz? (*Check one*)

- Less than one year
- One to under three years
- Three to under five years
- Five to under ten years
- Ten years or more

19. What is the one thing this company can do to increase your loyalty to them?

Source: Adapted from Bain & Company (2005: no page)

APPENDIX C: Survey results

Group 1 With a relationship banker or relationship offering

Respon- dent	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Ave rage	Q18
3	10	10	10	8	10	10	10	7	5	7	10	4	10	10	10	8	7	8.59	5
4	5	5	5	5	5	7	5	10	5	5	7	5	5	5	5	10	5	5.82	2
7	10	10	8	10	10	10	9	10	8	8	7	5	7	8	8	5	6	8.18	5
8	10	9	9	9	9	9	9	10	8	9	10	9	9	9	9	8	10	9.12	5
10	9	9	8	8	7	8	9	9	5	6	6	0	5	6	8	7	7	6.88	2
12	10	8	7	9	10	7	6	5	7	10	8	5	6	5	5	8	5	7.12	5
14	8	8	8	8	8	10	8	10	8	10	9	8	8	10	8	8	8	8.53	5
15	10	9	7	7	6	7	5	9	5	4	7	5	9	7	5	8	7	6.88	2
18	9	8	8	8	8	6	5	6	4	5	6	6	7	8	7	6	7	6.71	5
19	10	9	8	9	9	6	6	7	5	5	8	5	9	8	8	8	9	7.59	5
22	10	10	10	10	10	10	10	10	10	10	8	10	10	10	10	10	10	9.88	5
23	10	5	8	10	10	10	10	10	10	10	10	5	10	5	5	4	5	8.06	3
25	7	7	6	7	6	7	6	8	6	6	6	6	8	7	7	7	8	6.76	5
26	5	7	8	8	7	8	8	7	7	8	6	5	7	8	7	7	8	7.12	5
27	7	7	7	7	7	10	6	10	5	5	5	6	7	6	7	10	8	7.06	5
31	10	10	8	8	8	6	5	5	7	10	10	0	8	10	8	6	7	7.41	5
32	7	4	6	6	7	7	8	8	6	5	5	6	5	5	5	7	5	6.00	4
33	9	8	8	9	8	8	8	8	8	8	8	8	8	8	8	8	8	8.12	4
35	9	8	8	8	9	8	8	8	5	7	7	6	10	7	7	7	8	7.65	4
37	10	10	10	9	9	10	8	10	9	9	9	5	8	9	10	6	8	8.76	4

Respon- dent	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Ave rage	Q18
38	8	7	8	9	8	9	7	9	8	8	8	7	8	8	9	8	7	8.00	5
39	8	6	7	8	8	6	5	8	8	6	7	8	8	8	8	5	8	7.18	5
42	10	7	8	6	7	8	8	9	7	9	7	8	8	5	8	7	8	7.65	5
43	8	5	9	8	8	9	7	9	7	8	5	7	7	8	8	8	7	7.53	5
45	10	8	8	8	8	10	10	10	8	8	8	8	9	9	9	9	10	8.82	3
47	9	8	9	9	9	9	8	9	8	7	9	8	9	8	8	7	9	8.41	1
48	7	8	8	8	7	7	8	8	5	5	6	6	8	7	8	6	8	7.06	4
54	10	9	9	9	9	9	9	9	8	9	10	9	9	9	8	8	10	9.00	5
59	9	8	7	8	8	6	5	6	5	5	6	6	7	8	7	6	7	6.71	5
63	10	8	8	9	8	6	6	7	4	5	8	5	9	8	7	8	8	7.29	5
71	8	7	7	7	7	9	6	10	5	6	5	6	7	6	7	9	8	7.06	5
73	10	9	8	8	8	9	6	6	7	10	10	4	7	10	8	6	7	7.82	5
76	8	8	8	8	9	9	8	8	5	8	7	6	9	7	7	7	8	7.65	4
Avg/Mean	8.79	7.85	7.91	8.12	8.09	8.18	7.33	8.33	6.61	7.30	7.52	5.97	7.91	7.64	7.55	7.33	7.61	7.65	4.3
Std dev	1.45	1.56	1.10	1.14	1.26	1.47	1.67	1.55	1.68	1.93	1.64	2.16	1.40	1.60	1.39	1.43	1.39	1.52	
	Frequency Distribution Table								Frequency Distribution Table										
Number	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17		
0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0		
1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
4	0	1	0	0	0	0	0	0	2	1	0	2	0	0	0	1	0		
5	2	3	1	1	1	0	6	2	11	8	4	9	3	5	5	2	4		
6	0	1	2	2	2	6	7	3	2	4	6	9	1	3	0	6	1		

Respon- dent	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Ave rage	Q18
7	4	6	6	4	7	6	2	4	6	3	7	2	8	5	9	8	9		
8	6	11	17	14	11	5	10	7	9	7	7	6	9	11	13	11	13		
9	6	6	4	9	7	8	4	7	1	4	3	2	8	4	3	2	2		
10	15	5	3	3	5	8	4	10	2	6	6	1	4	5	3	3	4		
Total	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33		
0	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	6%	0%	0%	0%	0%	0%		
1	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%		
2	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%		
3	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%		
4	0%	3%	0%	0%	0%	0%	0%	0%	6%	3%	0%	6%	0%	0%	0%	3%	0%		
5	6%	9%	3%	3%	3%	0%	18%	6%	33%	24%	12%	27%	9%	15%	15%	6%	12%		
6	0%	3%	6%	6%	6%	18%	21%	9%	6%	12%	18%	27%	3%	9%	0%	18%	3%		
7	12%	18%	18%	12%	21%	18%	6%	12%	18%	9%	21%	6%	24%	15%	27%	24%	27%		
8	18%	33%	52%	42%	33%	15%	30%	21%	27%	21%	21%	18%	27%	33%	39%	33%	39%		
9	18%	18%	12%	27%	21%	24%	12%	21%	3%	12%	9%	6%	24%	12%	9%	6%	6%		
10	45%	15%	9%	9%	15%	24%	12%	30%	6%	18%	18%	3%	12%	15%	9%	9%	12%		
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%		
Avg	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%		
Std dev	30%	28%	30%	29%	29%	28%	28%	28%	29%	28%	28%	28%	28%	28%	29%	28%	29%		

Group 2 No relationship banker or relationship offering

Respon- dent	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Average
2	6	6	5	6	0	4	3	7	5	5	5	0	3	6	5	4	7	4.53
8	6	6	5	6	0	4	3	7	5	5	5	5	5	6	5	5	7	5.00
12	8	8	5	8	5	6	5	5	5	6	5	5	6	5	5	5	5	5.71
21	8	6	8	5	4	3	5	4	3	6	6	4	4	4	6	7	4	5.12
22	6	9	8	6	9	7	7	6	9	8	7	7	6	7	5	10	6	7.24
28	8	7	5	4	6	6	4	6	7	7	6	6	5	4	7	9	8	6.18
29	8	7	7	8	7	10	9	10	3	6	5	6	8	7	9	6	10	7.41
31	7	6	6	6	5	5	5	6	6	5	5	4	5	6	6	4	5	5.41
33	10	5	5	5	0	5	5	0	5	0	0	5	0	5	5	5	0	3.53
36	10	5	3	5	1	1	3	3	3	4	2	1	1	5	3	3	5	3.41
39	6	5	5	5	4	4	4	5	4	1	2	2	6	5	3	1	5	3.94
41	7	5	3	3	3	3	3	6	3	5	3	3	3	4	3	3	5	3.82
43	5	3	3	3	4	4	4	3	0	4	0	0	4	5	5	5	6	3.41
52	6	6	6	6	4	4	4	7	5	6	5	5	6	6	7	6	7	5.65
58	8	8	4	8	4	6	5	5	5	6	5	5	6	5	5	6	5	5.65
65	8	5	5	4	3	5	4	5	3	3	5	3	5	5	7	5	4	4.65
74	6	5	4	3	3	5	3	6	3	6	3	3	3	5	3	4	5	4.12
77	8	8	7	7	6	6	6	8	6	6	8	5	5	5	8	6	5	6.47
Avg/Mean	7.28	6.11	5.22	5.44	3.78	4.89	4.56	5.50	4.44	4.94	4.28	3.83	4.50	5.28	5.39	5.22	5.50	5.07
Std dev	1.41	1.49	1.56	1.65	2.46	1.91	1.58	2.18	1.98	1.98	2.19	2.04	1.95	0.89	1.75	2.10	2.04	1.83
	Frequency Distribution Table								Frequency Distribution Table									
Number	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	
0	0	0	0	0	3	0	0	1	1	1	2	2	1	0	0	0	1	

Respondent	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Average
1	0	0	0	0	1	1	0	0	0	1	0	1	1	0	0	1	0	
2	0	0	0	0	0	0	0	0	0	0	2	1	0	0	0	0	0	
3	0	1	3	3	3	2	5	2	6	1	2	3	3	0	4	2	0	
4	0	0	2	2	5	5	5	1	1	2	0	2	2	3	0	3	2	
5	1	6	7	4	2	4	5	4	6	4	8	6	5	9	7	5	8	
6	6	5	2	5	2	4	1	5	2	7	2	2	5	4	2	4	2	
7	2	2	2	1	1	1	1	3	1	1	1	1	0	2	3	1	3	
8	7	3	2	3	0	0	0	1	0	1	1	0	1	0	1	0	1	
9	0	1	0	0	1	0	1	0	1	0	0	0	0	0	1	1	0	
10	2	0	0	0	0	1	0	1	0	0	0	0	0	0	0	1	1	
Total	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	
0	0%	0%	0%	0%	17%	0%	0%	6%	6%	6%	11%	11%	6%	0%	0%	0%	6%	
1	0%	0%	0%	0%	6%	6%	0%	0%	0%	6%	0%	6%	6%	0%	0%	6%	0%	
2	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	11%	6%	0%	0%	0%	0%	0%	
3	0%	6%	17%	17%	17%	11%	28%	11%	33%	6%	11%	17%	17%	0%	22%	11%	0%	
4	0%	0%	11%	11%	28%	28%	28%	6%	6%	11%	0%	11%	11%	17%	0%	17%	11%	
5	6%	33%	39%	22%	11%	22%	28%	22%	33%	22%	44%	33%	28%	50%	39%	28%	44%	
6	33%	28%	11%	28%	11%	22%	6%	28%	11%	39%	11%	11%	28%	22%	11%	22%	11%	
7	11%	11%	11%	6%	6%	6%	6%	17%	6%	6%	6%	6%	0%	11%	17%	6%	17%	
8	39%	17%	11%	17%	0%	0%	0%	6%	0%	6%	6%	0%	6%	0%	6%	0%	6%	
9	0%	6%	0%	0%	6%	0%	6%	0%	6%	0%	0%	0%	0%	0%	6%	6%	0%	
10	11%	0%	0%	0%	0%	6%	0%	6%	0%	0%	0%	0%	0%	0%	0%	6%	6%	
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Avg	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	
Std dev	29%	29%	29%	28%	28%	28%	29%	28%	29%	29%	29%	28%	28%	30%	29%	28%	29%	